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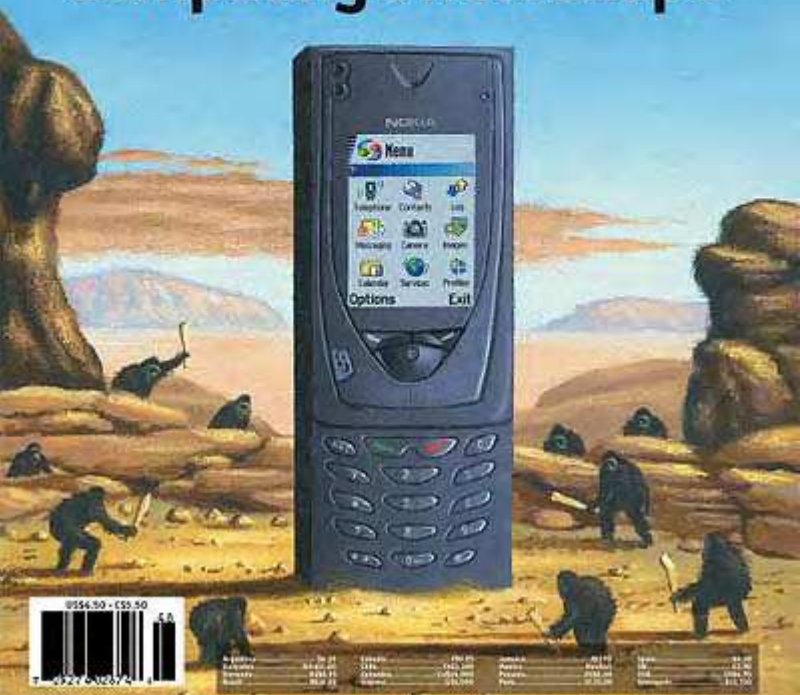
Computing's new shape



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Politics this week

Nov 21st 2002
From The Economist print edition

Back to Iraq

Reuters

Hans Blix, the UN's chief weapons inspector, and Mohamed El Baradei, chief of the International Atomic Energy Agency, led the **weapons inspectors** back to Iraq. An Iraqi spokesman said that a full report on its nuclear, chemical, biological and missile holdings would be submitted within 30

days. George Bush warned Saddam Hussein that if he claimed again to have no weapons of mass destruction he “will have entered his final stage with a lie.” American aircraft bombed an air-defence centre in the country's northern no-fly zone.

The American Senate endorsed the creation of a Department for **Homeland Security**, heralding the biggest reshape of federal government for 50 years. The department will have a budget of $37 billion, and combine 22 security agencies, though not the CIA or the FBI.

See article: The biggest new department in Washington

At least 11 Israelis, some of them schoolchildren, were killed in a Palestinian **suicide bombing** in Jerusalem. A few days earlier, Palestinian gunmen belonging to Islamic Jihad ambushed Israeli soldiers and guards who had been escorting settlers to prayers in **Hebron**, killing 12 of them. Ariel Sharon spoke of implementing his plans for a “contiguity corridor” between the settlers and

Hebron's holy sites. Five Palestinians were killed in a raid on Tulkarm.

See article: Israel and the Palestinians

Hu Jintao became the leader of the Chinese Communist Party, and thus the head of government. But Jiang Zemin, the outgoing leader, got many of his allies promoted to the all-powerful Politburo Standing Committee. He also retained the chairmanship of the Central Military Commission, essentially the head of the armed forces.

See article: China's new leadership

In **Kuwait**, two American soldiers were shot and wounded by a Kuwaiti policeman.

See article: Anti-terrorism in the Gulf

South Korean warships fired warning shots at a **North Korean** patrol boat in disputed sea areas. The incident was seen as reflecting tensions between the two countries since the disclosure that the North has secretly been operating a nuclear-weapons programme.

See article: Dealing with North Korea's new nuclear challenge

Indonesian police said they had arrested Imam Samudra, the man suspected of planning a bomb attack that killed 180 people in **Bali** last month.

See article: Investigating the Bali bombs

Pakistan swore in a new, civilian, prime minister: Zafarullah Khan Jamali. However, most power is expected to remain in the hands of the military president, General Pervez Musharraf.

See article: Pakistan's new government

Singapore is considering dropping its ban on **chewing gum**, the most famous of its moves to kept its streets clean. The gum may be put on sale in pharmacies to help people give up smoking.

Disaster at sea

AP

A tanker broke up off the west coast of Spain, causing what many predicted would be the most damaging **oil spill** since the Exxon Valdez broke up off the coast of Alaska in 1989. Everyone blamed everyone else.

See article: The *Prestige* oil spill

At a meeting in Prague, the Czech capital, **NATO** governments invited seven countries—Bulgaria, Estonia, Latvia, Lithuania, Romania, Slovakia and Slovenia—to join their alliance.

See article: If NATO had a crystal ball...

The foreign ministers of the **European Union's** 15 member states said that ten countries, mostly from Central Europe, should join the club in May 2004.

Giulio Andreotti, seven times prime minister of **Italy**, was sentenced by an appeals court to 24 years in prison for complicity in the murder of a journalist in 1979. But he was unlikely to go behind bars.

See article: A shocking court verdict in Italy

France's mainstream parties of the right teamed up as a broad new party named the Union for a Popular Movement (UMP), presided over by Alain Juppé, a former prime minister.

See article: France's right finds a new name

Abdullah Gul became prime minister of **Turkey's** new, Islamist-tinted government, but the leader of his party, Recep Tayyip Erdogan, who had previously been banned from parliament for allegedly seeking to stir up religious hatred, will pull the strings.

See article: Turkey's hopeful new government

Sweden's prime minister, Goran Persson, said he would hold a referendum on whether his country should join the euro—a course he

favours. The vote may be next year.

Keep talking

Amram Mitzna, the mayor of Haifa and a political outsider, was elected the new leader of Israel's Labour Party. Calling for renewed talks with the Palestinians, the former general has promised to try to reinvigorate the party rather than rejoin a rightist coalition led by the Likud Party.

Ayatollah Ali Khamenei, **Iran's** supreme leader, ordered a review of the death sentence passed on Hashem Aghajari, a liberal academic accused of blasphemy. In response to the students, who had demonstrated against this sentence, hardline militiamen, known as *Basijis*, held their own protest, raising the danger of street confrontations.

In **Mozambique**, the trial began of the alleged assassins of Carlos Cardoso, an investigative journalist who probed a bank scandal. The president of Mozambique's son, Nyimpine Chissano, was alleged to have been involved.

See article: Corruption in Mozambique

Somalia's peace talks got bogged down. Rival warlords from 22 factions took three days to agree on the first three words of a ceasefire pact: “We, the undersigned”.

The president of Equatorial Guinea, the **world's fastest-growing economy** last year thanks to an oil boom, said he had no intention of revealing how the money was spent.

Police force

Getty

Venezuela's populist president, Hugo Chavez, seized control of the Caracas police force, but was resisted by many officers and by thousands of protesters. The move was thought to be intended to

disrupt the **peace talks**, brokered by the Organisation of American States, between the government and opposition.

See article: Venezuela's political chaos

Larry Campbell, a former Mountie representing the centre-left Coalition of Progressive Electors, was elected with 59% of the vote as the new **mayor** of Vancouver, ending a 16-year spell of conservative government.

See article: Vancouver's new mayor

Asia's richest woman, Nina Wang, stood to lose much of her estimated $2.4 billion fortune, after a judge ruled that her late husband's will was forged. Ms Wang's lawyers promised to appeal.

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Business this week

Nov 21st 2002
From The Economist print edition

A rescue tax

Gerhard Schröder's government announced a **new tax** on sales of equities, property and investment-fund holdings in Germany. The tax proceeds will be used to offset Germany's deficit, which (like Portugal's and France's) is expected to bust the EU's stability and growth pact's ceiling of 3% of GDP.

Moody's, a rating agency, shifted its outlook on **Allianz**, Germany's biggest insurer, to negative after its announcement of a "catastrophic" loss in the third quarter. Allianz's chief executive, Henning Schulte-

Noelle, said he expected a recovery next year.

KarstadtQuelle, a German department store, mail-order and tourism group, said its profits would fall sharply this year. It blamed weak consumer confidence and the cost of restructuring.

Swiss Life reached safety, at least temporarily, as a group of banks agreed to underwrite a plan to raise up to SFr1.1 billion ($752m) of new capital. The troubled life insurer will raise some SFr900m of new equity in a deeply discounted rights issue, and SFr200m in a mandatory convertible bond. Hans-Rudolf Strickler, the last of the old management team who invested in a secret investment vehicle, quit.

Got the blues

The world's biggest independent record company, **EMI**, said that sales of recorded music would fall below target for the year. Post-tax profits in the six months to September 2002, however, reached £138m

($208m), after a loss of £54m in the same period of 2001.

A group of investors led by Marvin Davis, a media mogul-turned-oilman, has offered France's troubled **Vivendi Universal** some $15 billion for its entertainment assets. Vivendi rejected the offer, on the ground that it was “not in line with the group's strategy”. However, the heavily indebted company needs cash in its battle with Britain's Vodafone for control of Cegetel, a French telecoms firm.

A Dutch supermarket group, **Royal Ahold**, issued a second profits warning. Cees van der Hoeven, its chief executive, said he would stay for another five years at least, rebuffing calls for his resignation.

See article: Royal Ahold's problems

Diageo is thought to have rejected a revised offer for Burger King from a private-equity group led by Texas Pacific Group. Diageo had accepted a bid of $2.26 billion for the chain, but the deal fell through amid a fast-food price war and market volatility.

Liberty Media withdrew from an agreement to buy a Dutch cable-TV company, Casema, from France Telecom for *euro*750m ($759m), after the two failed to agree on terms. France Telecom is now talking to other possible buyers.

Pre-school tie

New York state's attorney-general is investigating a donation from **Citigroup** to 92nd Street Y, a pre-school for infants, to see if it could have been made to win places for the twin children of Jack Grubman, Citi's telecoms analyst. E-mails from Mr Grubman suggested that Sandy Weill, chief executive of Citigroup, may have ordered the donation in return for Mr Grubman upgrading the shares of AT&T Corp.

See article: Should the chairman of Citigroup resign?

Bond investors in **WorldCom**, a bankrupt American telecoms company, said they want Rudolph Giuliani, former mayor of New York, to become chairman. Mr Giuliani would work with

Michael Capellas, whom WorldCom has named as chairman and chief executive.

See article: The branding of Saint Rudy

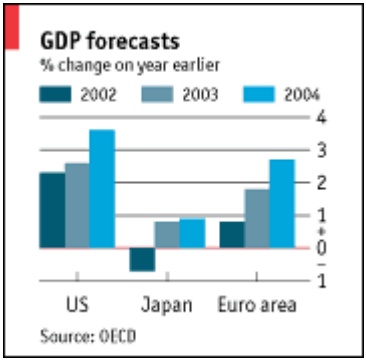
Banking détente

Citibank has opened a retail branch in Moscow, becoming the first American institution to launch a retail-banking operation in Russia.

American Airlines and British Airways applied to the Department of Transportation in Washington for approval for a code-sharing agreement, excluding transatlantic services from London. The two airlines would sell tickets on each other's flights.

The chief executive of GlaxoSmithKline, **Jean-Pierre Garnier**, may not get the 200,000 performance-related shares and 900,000 share options he is hoping for. Shareholders plan to oppose the package.

America's biggest home-improvements group, **Home Depot**, said it would miss its sales targets this fiscal year after poor third-quarter numbers. As well as the sluggish economy, the company said its store-renovation efforts had put off customers.



In its latest **Economic Outlook**, the OECD forecasts that growth in the rich industrial economies will remain muted into early 2003, but pick up in the second half of the year. In both 2003 and 2004, it expects the American economy to continue to outpace the economies of Japan and the euro area. Japan is tipped to see two more years of GDP growth below 1%.

See article: The world economy

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Smartphones and handheld computers

Computing's new shape

Nov 21st 2002
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As two industries collide, a new kind of computer may emerge

"A COMPUTE on every desk and in every home." This was Microsoft' mission statement

for
many years, and it once sounded visionary and daring. But today it seems lacking in ambition. What about a computer in every pocket? Sure enough, Microsoft has recently amended its statement: its goal is now to “empower people through great software, anytime, any place on any device”. Being chained to your desktop is out: mobility is in. The titan of the computer industry has set its sights on an entirely new market.

It is not alone. This week Dell, the world's largest PC maker, launched its first handheld computers, which run Microsoft's Pocket PC software. HP and Palm, which also make handheld computers, have just unveiled new models, with far more emphasis on wireless networking and telephony. And in an even more portentous move, the SPV, the first device to run Microsoft's special version of Windows for mobile phones, has just been launched in Europe by Orange, a mobile operator.

As the computer industry tries to cram PCs into pocket-sized devices, the mobile-phone

industry has arrived at the same point—but from the opposite direction. The latest phones announced by Nokia, the world's largest handset maker, include one model with a folding keyboard aimed at business users, as well as a colourful phone that plays computer games. Digital cameras, already a popular feature of mobile phones in Japan, are starting to appear elsewhere. Colour screens are spreading fast. The latest phones have as much computing power as a desktop computer did ten years ago.

The collision of the computing and mobile-phone industries seems likely to lead to a surge of innovation, as Microsoft and Nokia fight it out. Consumers will be the winners

In short, the once-separate worlds of computing and mobile telephony are now colliding, and the giants of each industry—Microsoft and Nokia, respectively—are squaring up for a fight for pre-eminence (see article). Both camps are betting that some kind of pocket communicator, or

“smartphone”, will be the next big thing after the PC, which has dominated the technology industry ever since it overthrew the mainframe 20 years ago. Admittedly, the two camps have different ideas about how such devices should be built. The computer industry believes in squeezing a general-purpose computer into a small casing; the mobile-phone industry takes a more gentle, gradualist approach of adding new features as consumers get used to existing ones. But are the two sides right about the future of computing in the first place?

The answer is probably yes, even though it is too early to be absolutely sure. As they search for new growth, both industries are certainly acting on that assumption. In the case of computers, sales of PCs have levelled off and corporate spending has stalled, so bets are being placed on mobile personal devices. For mobile phones, revenues from voice calls are now flat, so new data services such as photo-messaging, gaming and location-based information are looked to as the most promising source of growth.

Inevitably, there have been mis-steps already;

the most obvious has been the fiasco of European operators' attempts to launch “third-generation” (3G) mobile networks. The operators' willingness to pay vast amounts of money for licences to operate 3G networks shows how fervently they believed that the convergence of computers and phones was the next big thing. Even so, they paid too much: over *euro*100 billion ($100 billion) in all. Many operators have since decided to bow out of the 3G race, and the particular 3G technology that is being adopted in Europe happens not to work properly yet. Similarly, handheld computers, also known as personal digital assistants (PDAs), appear to have limited appeal; annual sales are flat at around 10m units.

Yet the trend remains clear. Mainframes ruled the computer industry until the rise of the PC; another 20 years on, the PC's reign now seems to be coming to an end. Previous generations of computers live on—mainframes are widespread, and PCs are certainly not going away—but each successive generation of computing devices is smaller, more personal and more numerous than its predecessor. Mainframes filled whole rooms, and belonged

to single companies. PCs sit on desks and are used by individuals or households. Phones are truly personal pocket-sized devices that are carried everywhere. More than a billion people around the world now have one.

The switch to mobile devices is thus a logical long-term step. Moreover, the earliest incarnations of a technology, with all its snafus, are not always an accurate guide to its subsequent development. The short-term impact of a new technology is usually overstated; the long-term benefit is often underestimated. Consider the earliest PCs, 20 years ago. They were hardly consumer products, yet they evolved into something with far broader appeal.

Today's smartphones and handheld computers are at a similar stage of development. Their makers do not claim to have all the answers, and are hedging their bets. The chances are that a variety of devices will emerge, each appealing to a different type of user. Microsoft is pursuing both smartphones and slate-like handheld computers. Nokia has split its handset division into nine “mini-Nokias”, each

concentrating on a different market segment, while sharing research, development and manufacturing facilities. And entirely new devices are appearing from companies such as Danger, a Silicon Valley firm with a pocket communicator that is neither a jazzed-up phone nor a scaled-down PC, but a genuine hybrid of the two.

Looking for the next Microsoft

If this is the next stage in the evolution of computing, one obvious question arises: which firm will dominate it, as IBM dominated the mainframe age, and Microsoft the PC era? The answer is that there is unlikely to be a single winner this time around. IBM ruled in mainframes because it owned the dominant hardware and software standards. In the PC era, hardware became an open standard (in the form of the IBM-compatible PC), and Microsoft held sway by virtue of its ownership of Windows, the dominant software standard. But the direction of both computing and communications, on the Internet and in mobile telecoms, is towards open standards:

communication devices are less useful if they cannot all talk to each other. Makers of pocket communicators, smartphones and whatever else emerges will thus have to compete on design and branding, logistics, and their ability to innovate around such open standards.

At the moment, these considerations seem to favour Nokia more than any other company. But Nokia faces a direct challenge as Microsoft leads the computer industry on to its turf; its continued dominance of the mobile-phone industry is by no means assured, since it is not based on the ownership of proprietary standards. Microsoft, for its part, will try to exploit its dominance of the PC industry to help force its way into the new market. But it may well fail. Either way, there will be no need this time round for any repeat of the long-drawn-out antitrust cases, against first IBM and then Microsoft.

Instead, the collision of the computing and mobile-phone industries seems likely to lead to a surge of innovation, as the two camps fight it out to create a truly personal computing and communications device, with far wider appeal

than the misleadingly named personal computer. And as these titans slug it out, it will be consumers who emerge as the winners.

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North Korea

A window for diplomacy

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North Korea cannot count on it staying open

IF YOU worry that you are surrounded by hostile powers, why turn yourself into your own worst enemy? North Korea

says it feels “entitled” to have nuclear weapons for its own defence. But its admission last month, faced with damning American evidence, that it had been enriching uranium for a second illicit bomb-making programme (it first tried secretly extracting plutonium from reactor fuel) has given offence all round. By having a second go at building nuclear bombs, North Korea has again broken its vows under the Nuclear Non-Proliferation Treaty. And it has undercut a 1994 agreement that had promised its sickly economy 500,000 tonnes of oil a year, and eventually two less proliferation-prone nuclear reactors, in return for freezing, and later dismantling, its bomb-making capacity. America, Japan and South Korea have now suspended the oil shipments. So what is North Korea playing at?

It says it wants a non-aggression treaty with the United States. If so, building banned weapons and shredding previous agreements is no way to go about it. America and its allies have made clear that any solution to the gathering crisis will require proper checks that North Korea is abandoning its weapons tinkering. Its claim to want a diplomatic end to the nuclear impasse rings hollow alongside its

threats to resume testing missiles that can strike its neighbours and that might even reach America.

Can't North Korea simply be deterred? Up to a point. Were it ever to use nuclear weapons, it could expect obliteration by return. But the damage goes wider. Even China, North Korea's one remaining sort-of-friend, wants it to give up its nuclear dabbling; if this unpredictable regime were left to brandish a bomb, a neighbourhood chain reaction could rapidly set in, turning Japan, South Korea and even Taiwan nuclear too. Others worry that North Korea could sell its developing nuclear technology, like it sells its increasingly far-flying missiles, to anyone with the cash to buy.

Can North Korea be persuaded to give up its nuclear weapons this time? Its decrepit economy is much more dependent on outside help than it used to be. Donations of food, chiefly from

North Korea could be calculating that the worse its misbehaviour, the bigger the bribe—and the better the chance of keeping

its weapons into the bargain

hated America and South Korea, have been keeping about one-third of its half-starved people alive. In recent months it has taken the first tentative steps towards economic reform. But the large-scale investments it needs from the big international lending banks have been blocked because of its past outlaw behaviour. If North Korea is to be levered out of the nuclear business, it will have to be persuaded that no economic assistance, or oil, will flow until the weapons go.

North Korea may be calculating differently: that the worse its misbehaviour, the bigger the bribe—and the better the chance of keeping its weapons into the bargain. In 1994, when America considered facing down North Korea over its plutonium-making, it got no help from neighbouring South Korea, Japan or China. The reactor deal was then the only way, short of war, of stopping more plutonium being reprocessed for more bombs. America's weakened negotiating hand meant that North Korea could evade proper checks that it was keeping its non-nuclear promises—and carry on cheating. This time North Korea has a lot

more to lose. But that will sink in only if America, South Korea and Japan stand together this time—and China, Russia and others all stay similarly on-message.

Time will run out

For now, the window for diplomacy is being propped open: future oil deliveries have been suspended, but one en route to North Korea was allowed to proceed; no decision has yet been made on other elements of the 1994 deal. Humanitarian food aid continues. And South Korea's president, Kim Dae-jung, is trying to salvage what he can of his failing “sunshine” policy, calling on North Korea's Kim Jong Il to settle the nuclear issue quickly. But the northern Mr Kim is proving his worst enemy too. Next month South Koreans may well elect a new president with a tougher approach. Japan also has its dander up: a missile test over its territory four years ago brought home the threat it faces. This time North Korea cannot count on the window for diplomacy staying open no matter what.

And if North Korea toughs it out? Resuming missile tests, or snatching back the plutonium “frozen” under the 1994 deal and still stored in North Korea, would have been a bad miscalculation before September 11th; given America's new concern about weapons of mass destruction, it would be utter folly now. If Mr Kim wants his non-aggression treaty, he will first have to co-operate in dismantling the threat his illicit weapons pose to others. An invitation to the International Atomic Energy Agency to resume its long-suspended nuclear inspections would be a step in the right direction. But he may try everything else first. Expect spine-prickling times ahead.

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The loss of Prestige

Once more, a breach

Nov 21st 2002
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The damage may have been exaggerated, but more could be done to reduce oil spills

EPA

HOW could it happen again? That is the question being asked after yet another

oil spill. More than a decade after the *Exxon Valdez*, and three years after the *Erika* spilled oil off Brittany, the *Prestige*—a single-hulled tanker, of Bahamian registry, laden with an especially heavy grade of petroleum—split apart in rough seas, and sank off north-west Spain.

Environmentalists, noting that there was more fuel on board the *Prestige* than on the *Exxon Valdez*, immediately cried out that this was a “timebomb” that could lead to the biggest-ever oil-related environmental disaster. Others railed against governments for failing to act earlier. A darker shadow still fell over greedy shipping companies. If only the right lessons had been learnt from previous accidents, goes the argument, this week's eco-tragedy might

never have happened.

That is an understandable hope—but largely wrong. For a start, there is little evidence to support the hysteria about ecological disaster. Any coastline is better off without tonnes of oil floating ashore. But for all the heart-rending pictures of oily birds, nature is both tough and resilient. Oil spills can harm flora and fauna in the short term, but seldom lead to irreversible long-term damage to ecosystems (see article). Sometimes, indeed, the clean-up does as much damage as the oil.

A second fallacy is that governments have been lackadaisical. The outcry and lawsuits over *Exxon Valdez* led America to plan a phase-out of single-hulled tankers, which are more likely to leak than double-hulled ones. The *Erika* spill led to two sets of European reforms. The first stepped up controls in ports, tightened up procedures for ship inspections, and accelerated the timetable for eliminating single-hulled tankers. The second tackled longer-term issues such as a compensation fund for victims of oil spills and the creation of a European maritime-safety agency. Since

these laws will come into force over the next two years, it would be a mistake for European governments now to rush to legislate further.

Such a reaction would be particularly misguided given that the shipping industry is also raising its standards. The taint of scandal is one powerful reason: after *Erika*, France's TotalFinaElf shifted away from single-hulled tankers, and most other big oil companies are doing the same. In recent years, publicly traded firms have led a consolidation of an industry once dominated by rogue operators. These new firms are more inclined to retire the inefficient and risky old clunkers, to upgrade their fleets and to maintain their ships properly.

There are a few useful things that should still be done, however. Governments must develop clearer guidelines on when and how to offer ailing ships a port of refuge; dithering and bickering between Spain and Portugal left the *Prestige* in rough seas far longer than necessary. Second, the industry should stop transporting the heaviest grades of petroleum in older, single-hulled vessels. And third,

Europe should further strengthen its procedures for inspecting ships—as the United States has done with its more aggressive ship inspection.

In the end, though, nothing can stop oil spills altogether. There is no such thing as an accident-proof tanker. As long as the world relies on oil from distant shores, some of it will be spilt in transit. To keep that risk in perspective, consider another accident this month, off another part of Spain. An American nuclear submarine rammed into a ship designed to carry liquefied natural gas. Not as photogenic as the poor seabirds, perhaps, but a closer brush with genuine disaster.

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Strikes

Tony Blair's Waterloo

Nov 21st 2002
From The Economist print edition

A bad settlement with Britain's striking firemen would finish New Labour's big idea

Reuters

THIS is not what Tony Blair wants to hear: the dispute with the Fire Brigades Union has become a defining moment for his government.

Nobody, not even the firemen, expects the union to get anything close to the 40% it has demanded. But even the kind of settlement now being advocated in some quarters as a reasonable compromise—something in the mid-teens accompanied by promises to discuss changing antiquated and anti-social working practices—would be a disaster for the government.

Any such deal would spell the end, almost before it has begun, of the government's attempt to show that by a combination of generous funding and modernisation it can provide efficient and highly valued public services. If the firemen are, as John Prescott, the deputy prime minister, has foolishly suggested, “an exceptional case” who should

receive “a special offer”, how much more deserving are other groups of public sector workers? There are 40 applicants for every fire service job advertised, but the health service suffers from an acute shortage of doctors and nurses. Teachers, however grumpily, have accepted change on a scale that shames the firemen.

Ever since announcing its intention to pour money into failing public services, the government has feared that much of it will be siphoned off into higher wages without discernible benefit to the wider public. Any settlement that appears to reward the firemen for their readiness to put at risk lives and property is likely to ensure that happens. The government will have failed in its central mission, and the idea it holds most dear—that, as Mr Blair puts it, good public services are social democracy in action—will have been fatally undermined.

Up to now, the government has appeared to sleepwalk its way through this challenge. From the moment, more than a month ago, when it became virtually inevitable that the FBU would

embark upon a campaign of rolling strikes, it ought to have made its determination to resist the union's demands much clearer. The training of troops on modern fire appliances should have begun immediately. At the same time, the government could have announced that the fire engines needed to provide an adequate back-up service would be taken from fire stations, even if that meant ordering soldiers or police (regardless of the sensibilities of certain senior officers) to cross picket lines.

Given the instinctive public regard for firemen, it should also have been quicker to draw attention to the union's resistance to changes that would save not just money but also hundreds of lives each year. The FBU's refusal to allow its members to train as paramedics or collaborate efficiently with other emergency services through shared control rooms, and its rejection of sensible shift patterns or regular overtime, are a scandal that even now is not widely understood.

In its desire not to be “inflammatory”, the government has, however unintentionally, signalled that it is open to compromise. Mr

Blair mildly repeats that any pay deal for the firemen that goes beyond the 4% they have already been offered must be self-financing. But he is undermined by Mr Prescott's hints that he would like to give them more money. Doubtless, Mr Blair means what he says. But the mixed messages have left a dangerous impression of drift and irresolution.

Leave them on their hook

As *The Economist* went to press, the FBU seemed determined to go ahead with an eight-day strike, despite an over-generous 16% pay offer from employers. Should it do so, the government needs to respond by taking a much harder line than hitherto. The queues of people wanting to join the fire service suggest two things: that firemen are not currently underpaid; and that if the incumbents don't wish to provide a decent service, there are many people who would be happy to.

It is understandable that Labour governments feel queasy about breaking strikes. The traditional relationship with the unions—not

least the funding they provide for the party—makes confrontation both difficult and painful. But a settlement of the kind that allows the FBU to wriggle off the hook it has created for itself will be much worse for the government than any of the alternatives.

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Bears and bulls

You beasts

Nov 21st 2002
From The Economist print edition

It is time to stand up for bears

AP

SIR, We are deeply offended by your newspape persistent use of the term “bear market” to

describe falling share prices. *The Economist's* claim, for example, that this is the worst bear market of all times (measured by the loss of equity wealth as a share of GDP) is embarrassing to us. Your cheap headlines, such as “the bears show their teeth” or “grin and bear it” are insulting. Being associated with a weak stockmarket is seriously damaging the reputation of all bears. Please stop being so beastly.

After all, we bears have invested years building up a more popular, huggable image and ditching the grizzly one. Indeed, we would argue that the true “bear market” is exactly 100 years old. In November 1902 President Teddy Roosevelt, while out on a hunting trip, refused to shoot a poor defenceless bear. After this became the subject of a cartoon in the *Washington Post*, the “teddy bear” was born—one of the most successful relaunches of any brand in history. These things are always easier with presidential help.

Why, then, do so many of you scribblers think that investors who expect share prices to fall should be known as bears? It probably dates

back to the American fur-trading industry, when a despicable group called bearskin jobbers used to sell bearskins in advance before actually shooting us. The label “bears” was later extended to speculators who sold shares they did not yet own, on the expectation that prices would fall so they could buy back the shares more cheaply. In those days bear- and bull-baiting were popular sports, so bulls soon came to mean the opposite of bears.

But this terminology is outdated in the modern world. Worse still, it has encouraged the belief that “bulls” are virile, astute investors, whereas a bear market is so named because, when bears wake up after their winter hibernation, they are grouchy and bad-tempered. That is a load of bull.

Grin and snake it

Doubtless you will demand that we propose some alternatives. Well, the surge in share prices in the late 1990s, especially the dotcom mania, should more appropriately be known as

a “sheep market”: investors unquestioningly followed one another. Investors nursing large losses are certainly feeling rather sheepish now. Many of the dotcom shares they bought turned out to be turkeys, and the analysts who tipped them were more like lemmings. If investors who thought share prices would always climb are sheep, which animal best describes those who bet on falling prices? The snake, of course. Not only can snakes sometimes be deadly, but in snakes and ladders, when you land on a snake you always slide down.

The current snake market could last some time. According to the well informed Canadian-based Bear Credit Analyst the world economy faces a sticky future. The blame lies with central bankers, who in the late 1990s put too much faith in the so-called goldilocks economy: not too hot, not too cold. The bears chased the silly girl away, but not before the damage had been done: the global honey supply, H3, is now shrinking at an alarming pace. No wonder the bears are feeling grouchy.

Yours ever, Pooh, Paddington, Yogi and

Smokey.

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Letters

Nov 21st 2002
From The Economist print edition

The Economist, 25 St James's Street, London SW1A 1HG
FAX: 020 7839 2968 E-MAIL: letters@economist.com

Mapping settlements

SIR – Israel's building of settlements means that an independent Palestinian state is not on the agenda as far as Israel is concerned ("Swallowing all before them", November 2nd). This is puzzling. If Israel will not accept a two-state solution, the implication is that it wants a one-state solution. It is difficult to understand how Israel thinks it is going to rule over the

3m Palestinians currently in the West Bank and Gaza without eventually giving them the same civil rights as Israelis, unless it wishes to be known as the apartheid state of the 21st century.

Dina Turner
London

SIR – Your map of Jerusalem is wrong. You show Mount Scopus, in north-east Jerusalem, as a settlement. This area, which includes the Hebrew University's main campus, was in Israel from 1948 to 1967 (and thereafter). It is not a settlement. It is also wrong to mark the Jewish quarter in the Old City as a settlement. Jews have lived there for hundreds of years but were expelled by the Arab legion in 1949.

The situation of the territories should be seen in its true historical context rather than being reported as if history started with the armistice agreement of 1949 and that that temporary agreement created established borders. It did not.

Stephen Franklin

London

Fair trade

SIR – In your piece on Naomi Klein ("Face value", November 9th) you claim that multinational corporations have no power over governments and citizens worthy of concern, since governments can regulate business as they choose. You ignore the immense influence wielded by big business over the policies of governments the world over.

You also assert that "Ms Klein deplores freedom to trade as one of the vilest manifestations of the neoliberal tyranny." Nonsense. Neither Ms Klein nor her supporters have ever denied that people should be reasonably free to trade with each other, as long as that trade does not do more harm than good. What we object to is giving more privileges to corporate interests.

Substantial evidence shows the greatest increase ever in the gap between rich and poor in the past three decades or so. In 1994 the head of the Latin American Association for

Human Rights wrote: “There are 240m people in Latin America without the necessities of life, and this when the region is richer and more stable than ever, according to the way the world sees it.” Your article talked of “extraordinary progress in reducing poverty”. Be serious.

Akil Alleyne
Montreal

SIR – You say “When companies, properly regulated and acting within the law, pursue profits, they end up increasing prosperity.” Just how many corporations operating in the so-called free markets are really properly regulated and operate within the law? If you believe that Microsoft's, Enron's, WorldCom's and others' sins are some kind of freakish exceptions to the norm you are mistaken. This display of apparent naivety, together with the article's condescending, sneering style suggests that Naomi Klein is not the only one with some growing up to do.

Grant Neely
Bad Münstereifel, Germany

SIR – Your article failed to advance the debate at all. There are genuine issues here that are of global concern. What are the benefits of global capitalism? What are the pitfalls? How can capitalism be directed (and by whom) so that those benefits can be enjoyed by all? Not only did your article ignore the real need for open discussion, it implied that Naomi Klein is disqualified from entering this debate because she does not have all the answers, which is absurd. Ms Klein's approach is to call for deeper levels of debate and greater inclusiveness in discussion, a call that is both valid and reasonable.

Ms Klein's writings are well researched and focus on issues not personalities. Your response was reminiscent of the kindergarten.

Joanna Gray
Melbourne, Australia

Green Canada

SIR – You say that Canadians, as “natural greens”, are not yet mobilised to support ratification of the Kyoto agreement

(“Contortions on Kyoto”, November 2nd). However, you do not acknowledge one of the key factors causing the paralysis. Canada's economy is profoundly influenced by American trade policy and the relative competitiveness of its industries. Canada's quandary is that by “doing the right thing” it would put itself at a severe disadvantage to its southern neighbour, which has clearly indicated it intends to pay little attention to curbing carbon-dioxide emissions.

Julian Taylor
Vancouver

SIR – You use environmental sophistry to correlate an unexplainable environmental phenomenon to its purported cause: greenhouse-gas emissions. The drought on Canada's prairies happens regularly, if not predictably—it has been documented for over 200 years. The drought now is less severe than that experienced in the 1930s (when greenhouse-gas emissions were fewer). Less than a decade ago, there was talk of an impending ice age.

Dennis Krenz
Calgary

Which option?

SIR – The efforts of the International Accounting Standards Board to harmonise the rules on the expensing of stock options continues to divert attention from the real issue ("The good fight", November 9th): Why use options at all? Whether expensed or not, they are a poor means of aligning the interests of senior managers and shareholders. Granting options gives incentives to executives to raise the share price when the real need is for a consistent and long-term increase in the intrinsic value of the firm.

A peak in the share price, if only for a few days, is often opportunity enough for executives to become instant multimillionaires. They will be tempted to stuff revenues, delay provisions and pedal stories to analysts to force this outcome. Someone with a lot of options that are significantly out of the money, who does not hold many real shares, has nothing to lose by making outrageous

acquisitions or by plundering resources.

The correct incentive for senior executives is the possession of real shares that they are obliged to hold on to for several years. Awarding a bonus for results achieved will encourage investments that enhance future cash flows and, hence, increase the value of the company.

Gary Miles
PA Consulting Group
London

SIR – If stock options are to be expensed using option-pricing models, a forecast is required of how volatile the stock will be over the life of the option. The value of an option is extremely sensitive to this forecast. High volatility forecasts mean high option expenses. Thus, managers will be motivated to use low volatility forecasts to keep option expenses low and reported profits high. I look forward to evaluating the accuracy of these forecasts.

Paul Dawson
Cass Business School

London

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Europe in the world

Facing responsibility

Nov 21st 2002
From The Economist print edition

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As the NATO summit convenes in Prague, the challenges cannot be pushed aside

WILL Europe ever learn to punch its weight around the globe? The question was less pressing when (distractions in the Balkans excepted) the most urgent question facing European governments seemed to be how to spend the “peace” dividend after the cold war ended. But the September 11th terrorist attacks on America, and repeated warnings that the next targets could be Berlin, London, Paris or Rome, show how vulnerable Europe is to new threats: from instability in regions far away, from failed or failing states and from the spread of weapons of mass destruction. In the past, many Europeans have seen such problems as America's to deal with—or no one's. At long last, that perception is changing.

At the NATO summit in Prague on November 21st-22nd, and in the European Union's subsequent deliberations about the best use of its own embryonic rapid-reaction force, European leaders will commit themselves, at least on paper, to take on farther-flung

responsibilities. After half a century of being wrapped up chiefly in their own affairs—Europe was supposed to be the ground zero of the cold war, after all—they must think urgently about how best to defend themselves and their interests anywhere in the world.

Most European governments recognise that more military capability is now required

Although they have prided themselves in recent years on their civilising “soft power”, most European governments recognise that more hard power—military capability, in short—is now required. But Europeans are not about to rediscover a neo-colonial urge to go forth and remake the world. The means they are proposing to acquire are still modest, even if their strategic horizons are expanding.

The go-anywhere NATO that is to be proclaimed at the summit will in any case face the old NATO's problems: too few fleet-footed capabilities, with smart weapons and secure communications, of the sort that America

displayed in Kosovo and Afghanistan, and which are needed to win wars. Europe's defence budgets, too, still provide too little money. On average, Europeans in NATO spend 2.1% of GDP on defence, compared with America's 3.2%. Germany spends a mere 1.5%, and that amount is slipping.

At present only Britain and, to a lesser extent, France can team up with America across a reasonably wide range of capabilities. In an effort to stretch the cash they spend, other European defence ministries and armed forces are either specialising—Norway in elite special forces, the Czechs with a mobile nuclear, chemical and biological defence unit—or starting to pool their efforts. Goaded by NATO's secretary-general, Lord Robertson, a series of consortia are combining to plug the capabilities gap. Germany is taking the lead on strategic lift, Spain on air-to-air refuelling, while the Netherlands is pushing for joint provision of precision-guided munitions.

The aim is to bolster Europe's clout at its weakest point, its military effectiveness. America has proposed a new 21,000-strong

rapid-response force, ready to go in a matter of days and to fight on for weeks until reinforcements arrive. Meanwhile, the EU is still struggling to equip its own long-promised rapid-reaction force of 60,000 (this one to be deployable in 60 days and sustainable for a year). The two forces are not competitors; they would have complementary jobs to do.

But with better and more useable military tools, wouldn't Europeans be mere camp-followers of the Americans? No; because NATO forces can be sent into battle only if all 19 members, including the Turks, Canadians and Europeans, agree. And spats over the use of such a force are likely to divide Europeans from other Europeans as much as from America. The EU's independent countries are by no means always ready to think and act as one.

The Iraq debate at the United Nations has been an all-too-familiar case-study in how Europeans get themselves at cross-

The Iraq debate at the UN has been an all-too-familiar case-study in how

purposes, with an activist Britain, a cautious France and an *ohne mich* Germany all pulling in different directions. The same happened in the early skirmishes of Yugoslavia's succession wars, when bickering European governments failed to halt the slide to conflict in Bosnia. Only later did they pull together, with America, to stop the fighting in Kosovo and to steady Europe's unruly Balkan fringes. That was hard enough. Now Europeans are challenged to think about security threats not just regionally, but globally.

Europeans get themselves at cross-purposes

Taking on the world

A little modest muscle-flexing is already going on. European soldiers have increasingly been showing up in places far from home, from Africa to East Timor. In Afghanistan, despite the misgivings of certain politicians that this was a bit far “out of area”, some European governments have contributed specialist forces and equipment to the overthrow of the Taliban and the hunt for al-Qaeda operatives; others

have lent troops to the peacekeeping force in Kabul, and much more. In a sign of the expeditionary times, Germany has requested NATO assistance when it takes joint command, with the Netherlands, of the international security force in Kabul in February. Europeans have also taken on heavier duties in other places, both in the Balkans and, in the months after the attacks on the World Trade Centre, in defence of American airspace, to free American troops and equipment for the war on terrorism. European intelligence services and police forces have helped track down al-Qaeda cells around the globe.

Some have long pressed for this more globally-minded Europe. Well before September 11th, Britain's Tony Blair had encouraged the EU to weigh in more effectively in the world as a

Reuters

“superpower” (th not, he emphasised, as a “superstate”). Earlier this year, Valéry Giscard d'Estaing, a former French president, launched a new EU constitutional convention by looking forward to a time when Europe would be “respected and listened to, not only as the economic power it already is, but as a political power which will talk on equal terms to the greatest powers on our planet.”

Allons, Légionnaires

France, as always, is inclined to measure Europe's might in the world against America's. Britain tends more to see European and American security interests as one and the

same. Yet France and Britain agree that if Europeans want their chief ally to listen to them, and their enemies to pay attention, they will need to shoulder more responsibility around the world. Some argue that EU enlargement—the ongoing continent-sized redesign and rebuilding that includes new members for NATO too—ought to be a big enough foreign-policy ambition for anyone. But this little-Europe lobby is being fast overtaken by events. And if Europeans wish to get engaged farther afield, they have plenty of foreign-policy tools at their disposal.

America easily leads the world in almost every dimension of power. But Europe, with its bigger population and not much smaller GDP (reckoned to be larger, in fact, until America's recent faster growth and the depreciating euro reversed the honours), has considerable heft, as the table shows, and that weight will grow as the EU takes in more members.

To their economic cost, the Europeans put less money into R&D than America does. Yet EU countries between them take the biggest share of world exports—giving Europe, on trade

matters, a voice that America's Congress and courts are increasingly obliged to listen to. And although the cultural attraction of things American, from movies to McDonald's, is immense, EU colleges and universities attract easily as many foreign students as America's do. Europeans also point out that they spend much more than America on overseas development aid, some 0.33% of GDP to America's 0.11% (though both fall considerably below the UN's target of 0.7%).

Between them, France, Britain, Germany and Italy (and the European Commission as observer), take up half the seats around

the table whenever the G8—the G7 group of rich countries, plus Russia—holds a meeting. Europeans between them also have a 30% quota stake in the IMF (compared with 17.5% for America and 6.3% for Japan), and similarly substantial voting rights at the World Bank. Moreover, they maintain close ties to the developing world, where many of the future security problems are likely to emerge. Britain has its Commonwealth of (mostly) former colonies, France its *Francophonie* and its territories in the South Pacific, Spain its Latin American connections. A whole host of links also survive between the smaller European

Pulling their weight?
2001

	United States	EU15
As % of GDP		
defence spending	3.2	1.9
overseas development aid	0.11	0.33
As % of world		
population	4.7	6.1
GDP	32.5	25.2
exports	11.5	13.9†
R&D spending*	40.6	23.6

*48 countries, 2000 †Excluding intra-trade

Sources: IISS; OECD; UN; World Bank; IMF; IMD

countries, such as Portugal and the Netherlands, and former colonies around the world.

Even with their new capability commitments at Prague and beyond, Europeans will continue to spend far less on defence than America. Yet Britain and France remain two of the world's five recognised nuclear powers (with two of the five veto-wielding slots on the UN Security Council). Both are among the few countries, apart from America itself, that can deploy "hard" power relatively speedily to distant trouble-spots; France is now striving to match Britain in this respect. Indeed, between them the Europeans have some 2m men and women in uniform—one reason for America's impatience at their inability to field many of these forces for useful duty against 21st-century threats.

Who's softer now?

When it comes to security, many Europeans would still rather take pride in their softer power: their readiness to do the peacekeeping

duties that America prefers to avoid; their experience, hard-won mostly in the Balkans, of crisis-prevention and post-conflict reconstruction; their larger aid budgets. The world needs “smart development aid” not just smart bombs, quipped one senior EU official during a recent transatlantic slanging match. But matters are not quite so simple. America is often faster off the mark than Europe with emergency humanitarian assistance; it is also frequently the single largest provider of aid to a given country; and its private aid has been calculated at four times the official sum, reflecting the country's long tradition of private philanthropy.

One vital exercise of preventive “soft power” over the past decade has been the spending of more than $7 billion by the United States to secure nuclear and other weapons materials and know-how in the countries of the former Soviet Union. Although the problem is on their doorstep, the Europeans collectively have mustered less than $1 billion. America has committed itself to another $10 billion over the next decade; Europeans, alongside the rest of the G8, including Canada and Japan, have promised to find a matching amount, but the

pledges do not yet add up.

For their part, Europe's peddlers of soft power are not above selling weapons to sensitive parts of the world, with which they then develop close military ties, including the sharing of technical know-how and training. Britain, France, Germany, Sweden and Italy—and, to a lesser extent, others too—are all recognised players in the arms trade.

Europe's strong commercial position—in all kinds of goods, as well as arms—ought to give it leverage over regimes with poor human-rights records, such as China or Iran. But in their enthusiastic pursuit of commerce, some European governments—Germany's and Italy's in particular, though France and Britain are not above criticism—decline to press sensitive issues for fear of losing contracts.

Stakes beyond Europe

Two regions that are vital to Europe's continuing prosperity are Asia and the Middle East. So far, their importance has not always

been evident in Europe's collective response to events.

Europe's stake in the Middle East, in economic terms, is arguably even greater than America's. Europe imports almost a quarter of its oil from the region (compared with America's 15%). Yet during the last Gulf war in 1991, when Iraq was threatening the Saudi oilfields, Europe's military contribution came mostly from Britain and, to a lesser extent, France. If it comes to another war against Iraq, there may be a broader European contribution (especially if military action is covered by a UN mandate), but American forces and weaponry will still bear the brunt of the action.

In the Arab-Israeli conflict, Europe has grown to be more than a bit-player

In the Arab-Israeli conflict, by contrast, Europe has grown to be more than a bit-player. After years of seeming to want to cut deliberately across American initiatives in an unequal struggle for influence (America's aid, military

and non-military, to Israel and Egypt dwarfs that of Europe), the two have recently worked together more harmoniously in support of the Oslo peace process, with the European Commission, by agreement, directing substantial amounts of its aid to the Palestinian Authority. Since the violence of the most recent *intifada*, and Israel's crushing military response, much of that EU effort lies, literally, in ruins. Many Europeans are angered by the Bush administration's seemingly uncritical support of Israel. Yet there can be no return, both sides agree, to Europe's competitive attitude of the past.

Elsewhere in the world, Europeans are constantly being warned of America's impending tilt towards Asia and the Pacific, and away from its traditional alliances in Europe. Yet when it comes to trade and investment, Europe's stake in this fast-growing region is on a par with America's. These days, the EU exports more to America than to Asia, but before the 1997 Asian financial crisis the reverse was true. The EU's total trade with Asia is still greater than with the United States—just as America's trade with Asia is greater than its commerce with Europe.

All this, you might think, should give Europeans as great an interest as America in the security and stability of the Asia-Pacific region. Yet Europe's potential muscle there is often deliberately under-used. Before the Asian crisis and since, European banks had lent more money to East Asia—and thus had more at risk—than either their Japanese or American counterparts. European taxpayers also contributed more than America's to the IMF rescue packages for Thailand, Indonesia and South Korea. Yet Europeans sought, and got, little thanks for that. America and Japan are still seen as the two crucial financial players in Asia.

In diplomatic crises, Europe's voice has seldom been heard

In diplomatic crises, too, Europe's voice has seldom been heard. Although the EU gives considerable aid to India and Pakistan, the Europeans had little influence with either government during the recent confrontation between these two novice nuclear powers over Kashmir. America, helped by Britain, worked hardest to defuse the tensions. “They would have seemed more

concerned if it had been a crisis between Togo and Gabon," remarks one frustrated British official of his European colleagues.

Although most European governments have now opened diplomatic relations with reclusive North Korea, the EU has been contributing only a tiny share ($15m-20m a year, to a project expected to cost about $5 billion) to KEDO, the organisation responsible for building two nuclear reactors and making interim deliveries of fuel oil in return for a freeze on the North's production of plutonium, from which nuclear bombs can be made. This miserly European contribution was made mostly to ensure that European companies were not cut out entirely from the bidding for contracts; regional security was not the first priority. Meanwhile, it bears noting that in recent years Japan has contributed much more to Europe's security, largely through aid to the Balkans, than Europe has to East Asia's.

North Korea is not the only place in Asia where Europe's flag follows trade, rather than vice versa. During the 1996 crisis in the Taiwan Strait, for example, when China test-fired

missiles in an effort to influence the outcome of Taiwan's first democratic presidential election, America sent a flotilla of protective warships; Europeans deliberately looked the other way, conscious of the need to maintain good trade relations with China. Indeed, EU officials sometimes promote themselves as ideal trading partners for China precisely because they do not aspire to be a force for law and order and, unlike America, have no military presence in the region. Yet when regional stability is so important, it is sheer folly to allow China to play Europe off against America in this way.

Picking up the pieces in the Middle East, trying to make its voice heard in the war on terror, under pressure to do much more to sort out the problems of regions that were seen, in the past, as mere targets of trade opportunity—all these demands are forcing Europeans to think how they might better orchestrate their dealings with the outside world. In Prague, they will take some first practical steps towards making Europe a real power—one defined not merely by economic interests, but by strategic weight and by a sense of responsibility for keeping the world at peace.

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About sponsc

The new Department of Homeland Security

Washington's mega-merger

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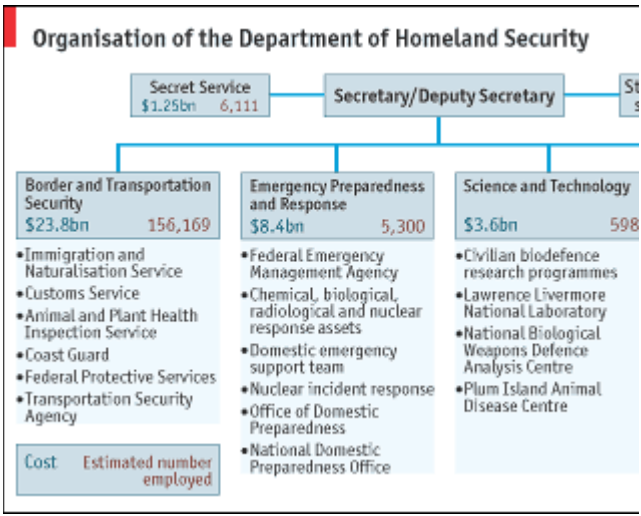
From The Economist print edition

America is about to get its long-promised Department of Homeland Security. How much will that help?

IT WILL be one of the biggest mergers ever. The newly consolidated business will have an annual turnover of $37 billion and 169,000 employees. The chief executive is babbling about synergies, benefits of rationalisation and economies of scale. The track record of ordinary mergers, involving two companies, is poor—and this one consolidates 22 units from

12 different companies. Meanwhile, in the background, the shareholders—or their representatives—are bickering and the unions are suspicious. If this were a real corporate merger, Wall Street would already be discounting the share price.

So the first question to ask about America's new Department of Homeland Security is whether the basic design (see chart) is the right one. It will bring most of the main functions of domestic security under one roof. Huge agencies will be seized from other departments—the Immigration and Naturalisation Service (39,500 employees) from Justice, the Coast Guard (43,600) from Transportation, the Customs Service (21,700) from the Treasury. Other independent entities—like the Federal Emergency Management Agency (5,100)—will be gobbled up whole. Yet the new department will not be omnivorous: it is not eating up some 100 departments and agencies that remain on its patch.



There are still people who think it should have been bigger or smaller. In 2001 a commission chaired by former senators Gary Hart and Warren Rudman proposed an even more sweeping reorganisation that would have also shaken up the Defence Department and the National Security Council (NSC), which are both basically untouched by the new entity. George Bush initially did not want a new department at all, merely a co-ordinating office in the White House, with the operational

divisions left in different departments.

In fact, there is a lot to be said for the compromise agreed upon this week. To have folded everything into one giant department would have been logical but administratively impractical. As Richard Falkenrath, the policy director for the Office of Homeland Security, told a panel at the Brookings Institution, the job “requires specialisation and expertise. There's also a fair bit going on in the rest of the world which the NSC needs to stay focused on.”

But leaving agencies scattered around would have been no good either. Consider two examples. If there were a chemical or biological attack now, health advice would come from no fewer than 12 federal agencies, to say nothing of local government ones. If there were an attack on a nuclear power plant, one agency would distribute anti-radiation treatment if you live within 10 miles. A different one distributes it if you live outside that circle. A third controls the drug stockpile. And a fourth takes over if the attack also happens to be within 10 miles of a nuclear-

weapons facility.

So it is not surprising that the president came round to seeing the benefits of rationalisation. With such an immense job of co-ordination to do, having a single department with budgetary control looked necessary. An advisory White House office could never bang heads together.

The bill approved this week does more than merely move bureaucratic boxes into one place: it vests the powers of the various units in the new secretary (likely to be Tom Ridge, now head of the White House Office of Homeland Security), in order to eliminate duplication or enforce the adoption of common standards. He can delegate authority back to the bits as he sees fit, and he also has the power to take 5% of the budget of any one bit of his empire and move it around.

In other words, the bill vests a lot of administrative discretion in one person. That may be risky. Democrats also argued that it was unconstitutional, and trampled over employment rights. These were the issues that held up approval of the homeland-security bill

for months over the summer and autumn. But it is probably just as well the administration won the fight: much discretionary power will be required to overcome bureaucratic inertia.

Two reforms look particularly promising. First, the new department will gather together all the border and transport agencies into one place. At the moment, people entering America fill in one form for immigration officials and another one for customs, and they may have to see Department of Agriculture officers. That will now be rationalised—a no-brainer, admittedly, but this is by far the largest section of the new department, with 156,200 of the 169,000 employees.

The second reform concerns “information analysis”. For the first time, America will have a central clearing house for assessing the vulnerabilities of, and threats to, Americans at home. At present, the Energy Department supervises security at power stations, the Transportation Department looks at roads and bridges, and so on. Bringing these things together will not guarantee better intelligence, but it should be easier to spot trends and

connections.

Vested interests are bound to make Tom Ridge's nice draft design extremely hard to put into practice

For now, the new department will merely analyse intelligence gathered by others. But several figures, including Richard Shelby, the senior Republican on the Senate Intelligence Committee, and a commission chaired by Jim Gilmore, the former governor of Virginia, have argued that America needs a proper domestic intelligence-gathering operation, like Britain's MI5. At the moment, the gathering is done by the FBI, whose director, Robert Mueller, vigorously opposes any idea to split off spying from policing, even though most spooks insist that spying and policing are often contradictory things.

That battle is for the future, but similar vested interests are bound to make Mr Ridge's nice draft design extremely hard to put into practice. One cautionary tale comes from the Transportation Security Administration, the

division which supplies the baggage screeners that went to work this week and which, at full strength, will be the second largest single part of the new department. The TSA was set up last year with congressional goodwill, a tough boss and an ambitious programme. But it lost the confidence of Congress and airport managers. It failed to get baggage-screening devices delivered on time. It could not resolve the competing claims of security and airport efficiency. And its first boss was sacked.

From this perspective, it is worrying that the new department does not really begin with firm political backing. Although the Senate voted 90 to nine this week to set up the department, that was only after months of squabbling. And the new department faces four challenges that may cost it more support.

• **The transition.** The new department is supposed to be up and running a year after the president signs the bill (which may be next week). It took 40 years and several congressional interventions to get the last comparable government reorganisation right, the establishment of the Department of

Defence. It would be a disaster if the bureaucratic effort to set up the new department distracts from the real job of protecting the homeland.

• **Sporadic shortages of money**. Proposed spending on homeland security has roughly doubled since September 11th (though not all the promised money has materialised). Still there are holes. The Coast Guard has one of the oldest fleets in the world and no amount of reorganisation will provide enough money to buy new ships.

• **Civil liberties.** Even in its pre-MI5 incarnation, the department's domestic snoops are likely to come into conflict with civil libertarians. Privacy watchdogs are up in arms about a new “office of information awareness” which, they say, could put all e-mails, credit-card transactions, drug prescriptions and every bit of electronic information you generate on to one vast, Orwellian database. This nightmare idea has been floated by the Defence Department, and may come to nothing. But the fracas carries a warning to the Homeland Security Department.

• **The private sector.** Many of America's most vulnerable targets, such as chemical factories, are privately owned and guarded. Any Republican government will be reluctant to wade in and impose new federal regulations on private firms. But what if private security is not enough? Mr Ridge could well find himself battling against several huge industries.

In short, the new department is a step forward, but just a step. Eventually, it should make America's borders safer and improve domestic intelligence. But those are only parts of the picture. It is a top-down reform to improve security at a time when the most useful form of protection comes from the bottom up—from a security guard noticing something strange at a power plant, from a customs officer following up a hunch, from passengers overpowering a shoe bomber. Even after the new mega-merger, those are the people who will keep the homeland secure.

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Terrorism insurance

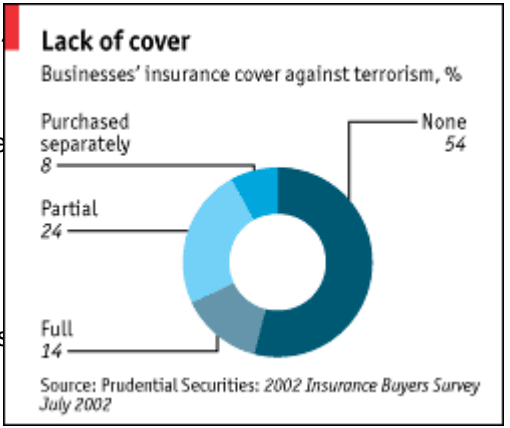
A limitless risk

Nov 21st 2002
From The Economist print edition

The government, it seems, was bound to bail out the industry

WHY did Congress take such a long time to approve a federal programme for terrorist-

risk insurance. Ever since September last year, insurers and their customers have been clamouring for a bill to make the government an insurer of last resort for terrorist attacks. Yet it was not until November 19th that it finally cleared the Senate, having passed the House a week earlier.



The bill makes available as much as $100 billion over the next three years to cover 90% of the losses related to terrorism. The federal programme kicks in when industry losses are greater than a certain sum ($10 billion in 2003, $12.5 billion in 2004 and $15 billion in 2005). If the losses do not reach that figure, the insurers' losses will still be limited to 7% of

their premiums in 2003, rising to 15% in 2005. This deductible aside, the government will pay the rest.

Insurers argue that the logic for calling in the government is compelling. The industry managed to swallow a loss of around $50 billion from September 11th; but many big insurers would go under if another such loss occurred. So the government would have to become the insurer of last resort by default.

This year most insurers and reinsurers either refused to write terrorism insurance (which 45 states and the District of Columbia allowed them to do), or they demanded exorbitant prices that many businesses refused to pay. Today more than half America's businesses have no cover for terrorism; another quarter have only meagre cover. The cost of general insurance has risen, on average, by around 30% since the attacks. There have also been lawsuits related to bank covenants: for instance, the owners of the Condé Nast tower in New York are in dispute with their mortgage holders over the lack of terror cover for their building on Times Square.

With so many lobbyists in a panic, few politicians opposed the concept of a federal backstop. The main sticking-point between Democrats and Republicans was a proposal by the House to bar victims of terrorist attacks from seeking punitive damages in lawsuits against private companies. Democrats and their most munificent benefactors, the trial lawyers, thought this was an attempt to introduce tort reform.

Now a compromise has been reached. Victims of terrorism can sue private companies for punitive damages, though only in federal courts, which are less accommodating to plaintiffs than certain state courts. They cannot sue the federal government. The White House, which had backed the House plan, has now decided that the bill is about “jobs, not tort reform”, and says it will help stimulate the economy.

Insurers will now start writing terror cover again, and prices should fall dramatically—but not to their level before September 11th, which was close to zero. Before the attacks, terrorism insurance in America was simply part

of blanket commercial cover—at no additional charge. That world has gone.

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Quarantine laws

Off the leash

Nov 21st 2002 | WASHINGTON, DC
From The Economist print edition

A great day for canine civil rights

THE single biggest scar on Anglo-American relations since the White House was burnt down in 1814 has finally been healed. The British government announced that, on December 11th, it will finally lift its absurd requirement that pets entering the United Kingdom from the United States should be forced to endure the misery of six months in quarantine.

Animals may have to spend a couple of days in quarantine while their paperwork and

microchips are checked. There may also be problems because Britain and America have different standards for their microchips. But those six months of pining animals and howling owners will be a thing of the past.

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Al Gore

He's back

Nov 21st 2002 | WASHINGTON, DC
From The Economist print edition

But why are so many Democrats looking nervously the other way?

Reuters

THE one dignified bit of the sordid Florida recount was Al Gore's concession speech, with its

resonant ending: “It's time for me to go.” He made good on his promise. In the 1820s, Andrew Jackson, who also won the popular

Shut up and kiss me

vote but lost the White House, spent almost all his time whingeing about his sorry fate, a habit that he kept up even after he won the presidency four years later. Mr Gore kept a dignified silence. He disappeared so completely from national life that people thought of putting his face on milk cartons. When he resurfaced in the aftermath of September 11th, it was to call George Bush his “commander-in-chief”.

Now Mr Gore is everywhere. In the past couple

of months he has delivered big speeches on both the economy and foreign policy. Mr Gore is in the midst of a media blitz of Madonna-like proportions to promote “Joined at the Heart” (Henry Holt), a homage to the American family co-written with his wife, Tipper. It is impossible to turn on the television without seeing him cooing with Katie Couric, playing softball with Larry King, being ranted at by Chris Matthews or engaging in Clincest with George Stephanopoulos. The former vice-president has even appeared as a disembodied head in a TV cartoon.

Mr Gore may be trying to sell books, but he is also clearly positioning himself for a possible rematch with Mr Bush in 2004. Many Americans have forgotten about this once-familiar figure in the past two years. So Mr Gore is busy re-establishing himself in the public mind. His pitch: he's a family man with a quirky sense of humour, a remarkable resilience in the face of defeat and more passion than you might think (that kiss at the Democratic convention has been endlessly retold).

Mr Gore says that he will not decide whether to make another run for the presidency until after Christmas. But almost everybody expects him to run. He is convinced that he was robbed of his legitimate prize in 2000; he has spent his entire life running for political office; and he has an admirable streak of stubbornness. He is carefully positioning himself to appeal to the hard-core Democrats who vote in the primaries, lambasting the Bush administration on everything from its economic management to its policies in the Middle East, and even—in a death-defying stunt—calling for the introduction of a national health-care system modelled on Canada's.

Yet the prospect of another Gore campaign is hardly unleashing joy in the Democratic camp. Mr Gore still has the highest name recognition among party members of all the potential candidates. But the higher up the party you go, the less enthusiasm you find.

A *Los Angeles Times* poll found that nearly half of Democratic Party insiders (defined as members of the Democratic National Committee) believe that Mr Gore should not

run in 2004: only 35% of respondents said that Mr Gore should run compared with 48% who said that he should not (17% were undecided). Many of Mr Gore's leading backers have already shifted their allegiance to other candidates. Bob Shrum, one of the inspirations behind his turn towards populism, is now advising John Edwards. The only people really enthusiastic about another Gore run are the Republicans.

This nervousness among Democratic strategists is understandable. Mr Gore won more votes than Bill Clinton ever managed. And he has a more compelling story than “Rocky”: how he dealt with the “theft” of the world's most important job by putting on weight and growing a beard before finally storming back. But his 50.9m votes cannot make up for the fact that an election fought at a time of peace and prosperity should have been a walkover for the incumbent president's successor. And his compelling personal story cannot make up for the fact that, as you watch him dragging Tipper from one talk show to another, he may strike some people as just a little too weird for comfort.

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Retirement communities

Isn't this gay, dear?

Nov 21st 2002 | PALMETTO, FLORIDA
From The Economist print edition

An interesting new property business

THERE is no indication that the Palms of Manasota is any different from the multitude of retirement communities that pepper south-western Florida. It is the usual mixture of mission-tiled roofs and palm trees, with a water fountain and a bit of protected wetland. Its distinction is its residents: all 40 or so of them are gay or lesbian. Some were drawn by the weather, others by the nice-looking homes, but all were attracted by the camaraderie.

Welcome to the “alternative senior housing

industry". Gay baby-boomers of the Stonewall Generation are ageing and—just like their straight equivalents—they are suddenly reconsidering all the rude things they used to say about the homes where they dumped their own parents. The National Gay and Lesbian Task Force reckons that there are 1m-3m gay people above the age of 65; by 2030, when one in five Americans will be 65 or older, there will be 4m homosexual retirees.

John De Leo, the boss of the Shaman Development Group, a Californian property firm, reckons that this translates into demand for at least 66,000 homes in retirement communities over the next 20 years. Supply falls well short. Although there are half a dozen lesbian mobile-home parks in the south-west and Florida, the Palms is the only existing retirement community for homosexuals of both sexes.

In theory, another 12 projects, from Boston to Arizona, should open over the next five years. They all boast long waiting lists, often stretching into the thousands, with potential residents writing in from as far away as Iran. A

small two-bed, two-bath home at Palms goes for roughly $160,000, slightly more than the equivalent in a straight community.

Gays could certainly do with both the company and the care. A study by the Brookdale Centre on Ageing at Hunter College in New York found that fewer than one in five elderly gays have a life partner and only one in ten has children. By contrast, nearly half the overall general senior population has a spouse and four in five have children (who provide much of the care for their parents).

Marketing people like to say the communities are similar to families. There have been reports of elderly gays being shunned in normal retirement communities. Gay retirement homes offer safety in numbers, and also care for those with HIV and AIDS. “It is not so much a family of blood, but a family of choice that we are looking to take care of us,” says Joy Silver, president of RainbowVision Properties, which is planning a retirement community in Santa Fe. Gay retirement homes are also likely to be different. Yet another property firm, the Lundberg Group, talks about having drag

shows at its proposed Our Town developments.

For the moment, the Palms is the trendsetter. Its founder, Bill Laing, had a rough time trying to raise money for the idea in the 1990s—and died before it was completed. It is still relatively small: only 21 single-family homes and six condominiums have been completed. But now plans are afoot to expand over another 30 acres—and to bring in another 250 people.

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Gun control

From the hip

Nov 21st 2002 | NEW YORK
From The Economist print edition

The courts and politicians are heading in different directions on gun safety

Reuters

ON THE last day of school in 2000, Nathaniel Brazill, a 13-year-old student, turned up with a concealed handgun taken from the unlocked

drawer of a family friend. After an argument with his teacher, Barry Grunow, Nathaniel pointed his gun, a .25-calibre Raven, at Mr Grunow's head and shot him. The boy was convicted of second-degree murder. Were the gun's manufacturer and distributor also to blame?

Nathaniel and his gun

Prosecutors argued that they were. Raven handguns—also known as “Saturday Night Specials”—are especially dangerous because they do not have safety features, such as trigger locks. They are also cheap, easy to hide and useful only at close range. Criminals love them.

Raven went out of business in the early 1990s. But on November 14th the jury found the distributor, Valor, partly liable, and ordered it to hand over $1.2m to Mr Grunow's widow. That is 5% of the $24m verdict (the rest is to be paid by the school and the gun's owner). In placing such guns on the market, Valor was deemed partly responsible for the Raven's misuse—the first time a distributor has been found liable for so-called “junk guns”.

Both sides are appealing the verdict: the plaintiffs because they want more money, and Valor because it insists it is not liable. This is part of a trend. Lawsuits against the gun industry are on the rise and, even though no firm has yet lost a judgment after appeal, several smaller gun manufacturers have gone out of business.

In one way this seems a natural successor to the lawsuits against Big Tobacco. Many of the same people are involved; Mrs Grunow's lawyer, Bob Montgomery, is a tobacco veteran. But it is far more complicated politically. Few politicians outside the Carolinas and Virginia were prepared to defend the tobacco business.

Guns, however, are much more popular with politicians of both parties. Even the Democrats, desperate to regain ground in the South, do not want to be seen as “anti-gun” in any way.

The reluctance to regulate in Washington is one reason why gun-control advocates have gone to the courts. The aim is not to ban guns, says Mathew Nosanchuk, the litigation director of the Violence Policy Centre, but to change the somewhat careless way in which they are made and sold. For instance, the sniper's rifle used around Washington, DC, was traced back to a shop in Washington state that can't account for 300 guns. Guns also have a habit of going missing in factories.

Since 1998, 33 city and local governments have sued the industry, in an effort to recoup the costs of gun violence and to force gun makers to sell their products in a safer way. A $433m lawsuit by the city of Chicago, for example, accuses 22 gun manufacturers, four gun distributors and 12 gun shops of creating a public nuisance with their products.

Since the lawsuits started, more gun makers

have begun to equip their guns with devices like internal safety locks. But in the courts they have stuck to the basic defence—that their products do not commit crimes, people do. Even the lawsuits against them do not hold the manufacturers and dealers liable for the crimes themselves; they claim that the gun industry contributed to the crimes or accidents by not doing things that it could have done.

This is much vaguer territory. But there is a precedent involving cars. The *Larsen v General Motors* case in 1968 ruled that "while automobiles are not made for the purpose of colliding with each other, a frequent and inevitable contingency of normal automobile use will result in collision and injury-producing impacts." So car-makers are liable for defects that enhance the likelihood of injury; and they are expected to add devices to reduce accidents. The *Larsen* case led to car-safety laws and to features such as air bags.

Most products—from cigarette lighters to medicine bottles—have to be designed to protect against foreseeable misuse. But there is no regulator to help the plaintiffs: guns and

tobacco are the only products that the Consumer Product Safety Commission does not oversee. And even though lawsuits have often helped push up safety standards elsewhere, there are plenty of conservative judges who do not think it is the courts' job to create gun laws (see article).

Meanwhile, the legislative branch of government is rallying to the industry's defence. Some 20 state legislatures have passed laws designed to pre-empt local-government lawsuits against it. And two bills banning all liability suits against the gun industry are gaining momentum in the House and Senate. It is even possible that the current “lame duck” Congress will grant the industry sweeping immunity from future litigation.

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Life after stench

Many nappy returns

Nov 21st 2002
From The Economist print edition

That pooping child could be sitting on a goldmine

NEXT time you want to put up some wallpaper, perhaps you should consider dirty nappies. The city of Santa Clarita has launched a pilot nappy-recycling programme. For the next six months, the Californian town will collect used nappies (or diapers as American like to call them) from 225 families—and begin the process of turning them into things like shoe insoles, roof shingles and, yes, wallpaper.

Santa Clarita is an appropriate place to start.

Three out of four Santa Claritans are under 44, and more than 150 new residents are born every month. Each of these little dears should produce one tonne of dirty nappies before he or she is potty-trained: most of that ends up in landfills.

The state of California and Santa Clarita have each contributed $250,000 to set up the scheme. The city's rubbish-collecting company will be in charge of picking up piles of nappies from the kerb, delivering them to the recycling plant and selling the recycled products. The recycling plant itself is being managed by Knowaste, a New York-based company that specialises in the recycling of absorbent hygiene products (great chat-up line, that) and turning them into pulp and plastic.

Three years ago Knowaste opened a plant in the Netherlands that now processes 35,000 tonnes of dirty nappies a year. In line with European demographics, the raw material this time comes from incontinent old people rather than babies. The plant, which works with local retirement homes in the area, gets paid *euro*100 ($100) for every tonne of soiled trash

it takes from the delivery lorries. It also gets paid at the other end for the plastic and pulp. It has presold all its 2003 production at *euro*200-300 a tonne.

The recycling market in America, though, is softer. With so much empty space, landfills are less unpopular and cheaper than in Europe. New York city, for instance, recently suspended its recycling of glass and plastic because it could not find any customers. In California, rubbish hauliers pay around $35 a tonne to dump their load—about the same as it will cost to recycle the nappies.

A new set of green laws could help, though. Californian towns are now required to divert 50% of their solid waste from landfills: those that fail could face penalties of up to $10,000 a day. Santa Clarita currently recycles about 40% of its garbage, but it wants to increase that proportion to 75%, and, according to Knowaste, nappies are one of the main bits of home rubbish still going to landfills. So let them be recycled. Whether even the green burghers of Santa Clarita will want to live under a nappy roof or ease into a nappy pair of

shoes is another matter.

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Lexington

The third branch

Nov 21st 2002
From The Economist print edition

A more conservative judiciary will not change America as much as you might think

CAN
they
make it
a hat-
trick?
Conservative
Republicans
have
already
taken

over the executive and legislative branches of the governme Now they are tightening their hold on the judicial branch as well.

During the 2000 presidential campaign George Bush promised to appoint “conservative judges”—and held up Antonin Scalia and Clarence Thomas, two members of the Supreme Court, as examples. His ability to fulfil his promise was somewhat blunted by the peculiar 2000 election: it seemed a little rich to try to appoint more conservative judges when he owed his job to the likes of Justices Thomas and Scalia. It was further blunted by the Democratic takeover of the Senate. In his first year in office Mr Bush succeeded in getting

only 42% of his judicial nominees confirmed (including two Clinton holdovers), compared with 91% for Ronald Reagan. There are more than 100 judicial vacancies. Now that the Republicans are back in charge of the Senate, Mr Bush has his elusive mandate and the Senate Judiciary Committee is set to become a veritable factory of conservative judges.

But what is a conservative judge? And what difference will having more of them make? The left has a ready-made answer. Conservative judges are people who hold primitive views on a host of momentous questions—affirmative action, privacy and, above all, abortion—and who have organised themselves into a tightly-knit movement in order to impose those views.

There is a little truth in this. In the past 30 years conservative lawyers have transformed themselves from a disorganised rabble, in perpetual retreat before the forces of

In the past 30 years conservative lawyers have transformed themselves from a disorganised

liberal activism, into a disciplined army. Conservative lawyers study with conservative professors at the Universities of Chicago or Virginia, network with their fellow conservatives in the Federalist Society, and clerk with conservative Supreme Court justices. Twelve years ago the first President Bush appointed David Souter to the court; he then voted routinely with the liberal camp. Today's conservatives swear they will never be “Soutered” again.

rabble into a disciplined army

But there are problems with the liberal caricature. The first is the little issue of the law. Judges can't simply reinterpret the law in the light of their private prejudices (even if, in the case of affirmative action and partial-birth abortion, their prejudices are in line with public opinion). Mr Scalia swallowed his prejudices when he declared that flag burning is constitutional. The Supreme Court has ruled that virtual child pornography is legal.

The second problem is that conservative judges don't hold monolithic opinions. Libertarians and social conservatives disagree

strongly on everything from abortion to privacy. Barry Goldwater, the patron saint of American conservatism, supported abortion rights. The conservative judiciary is rent by the same disagreements that rend the movement at large.

Conservative lawyers are also fiercely divided over judicial activism. One group of conservatives reacted to the activism of liberal judges by calling for judicial restraint: judges, they said, should limit themselves to interpreting the law and the constitution rather than trying to conjure up new laws (which is the job of the legislative branch). But a second group is much happier with judicial activism—provided, of course, that it is the right sort (ie, restraining liberal legislatures). Wasn't the point of the American constitution to put limits on the power of government? And isn't the role of the judges to ensure that the Bill of Rights protects people from the tyranny of the majority?

These activists, who are perfectly happy for judges to overturn legislation in the light of the constitution, are gaining influence. Since 1995

the Supreme Court has struck down at least 26 federal laws on constitutional grounds. Back in the 1920s, liberal judges such as Oliver Wendell Holmes preached judicial restraint in the face of the Supreme Court's willingness to strike down labour laws. You may hear similar noises again now.

It all comes down to abortion in the end

But how much power will Mr Bush's new lower-court judges have? The simple answer is: not as much as the conservatives hope or the liberals fear. These judges will spend more than 90% of their time dealing with bread-and-butter cases that do not involve any great ideological issues. And when they do encounter such issues, they must defer to the Supreme Court. This is not to say that their appointment to lifetime jobs doesn't matter. They may make a difference at the margin—for instance, they may make America even tougher on crime. But they will plainly not spend every day banning abortion.

The assumption that the Supreme Court is due for a lurch to the right seems dubious

As for the assumption that the Supreme Court is due for a lurch to the right, this seems dubious. William Rehnquist, the conservative patriarch, may retire soon, and could see his place as chief justice taken by a centrist, Sandra Day O'Connor. The man who is widely tipped as Mr Bush's first nominee, Alberto Gonzales, the current White House counsel, is suspected of harbouring liberal leanings on both racial preferences and abortion rights for minors. Whatever Mr Bush might hint to pro-life groups, his political strategist, Karl Rove, would be more likely to walk naked around the Capitol than engineer a Supreme Court that would overturn *Roe v Wade*, the main abortion ruling.

Moreover, contrary to most Democratic propaganda, conservative lawyers are divided over abortion. Supporters of judicial restraint would like to leave the question to state legislatures (most of which would surely vote to maintain the status quo). Judicial activists are less interested in abortion (on which, they

argue, the constitution is silent) than they are in gun rights. Conservative judges may fiddle with abortion rights around the edges—by outlawing late-term abortions, for example, or by restricting the right of minors to have abortions without parental notification (both changes that the public support). But *Roe v Wade* will survive Mr Bush's new judges.

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The Caribbean

Trouble in paradise

Nov 21st 2002 | BRIDGETOWN AND PORT OF SPAIN
From The Economist print edition

Life is tough for small island economies. But there are ways to survive

SUN, sand and sea: no wonder the close-on two dozen countries that kiss the Caribbean seem to be the stuff of dreams. But for many of them, the dream is becoming more of a nightmare.

Some of these countries now face big debt problems (over 100% of GDP in Dominica and Antigua), the result of persistent economic mismanagement. Tourism revenues have sagged, drug shipments (and consequent

violence) are growing, and changing trade rules are causing grief.

The islands argue that their small size makes it harder to cope with trouble. The Caribbean has the world's largest group of countries with small populations. Indeed, that is part of the region's charm. A few islands—Haiti, the Dominican Republic, Cuba—have sizeable populations. But in the English-speaking Caribbean, the giant is Jamaica, with a mere 2.6m people.

Many of these dots in the ocean have sopped up thousands of workers in growing bananas and sugar. But the crops sell mainly under preferential trade arrangements to the European Union. Now these agreements are being phased out. Most trade privileges for bananas go in 2006, for sugar by 2009. In September, Brazil and Australia announced that they would challenge the EU's sugar subsidies at the World Trade Organisation.

For some countries, the loss of these industries is a hard blow. The banana exports of Dominica, a country of 71,000 people, earned $24m in 1993; a mere $9m in 2000. Where bananas can grow, so can fine marijuana. Both St Vincent and Jamaica have been producing

ganja in quantity for decades, and are now graduating to transshipment of cocaine.

Jamaica's sugar producers will probably be wiped out

Now it is the turn of sugar. Already, the competitive pressures have grown. Without protection, only Guyana and perhaps Belize can compete with Brazil—and then only with substantial investment and job losses. Jamaica's producers will probably be wiped out. They are notoriously inefficient: because the ancient machinery in refineries frequently breaks down, cut cane sits for hours in the sun, its sugar content seeping away. Even Cuba is shutting almost half of its refineries, creating a vast potential unemployment problem.

Trade privileges for rum and rice are also disappearing. For those islands that have diversified into offshore financial services, the OECD's campaign to curb tax havens and tighter regulations on money-laundering are both threats, but these tiny places, like the Caymans, remain extremely rich. Winston Cox,

once governor of the central bank of Barbados and now deputy secretary-general to the Commonwealth Secretariat, argues that the tax-haven campaign has “severely affected” financial services in the region and led to a slowdown in the rate of formation of new companies, but the absolute number of companies continues to increase.

The biggest earner for most Caribbean countries is tourism. It wobbled after last year's terrorist attacks but now seems to be gaining, perhaps from tourists fleeing Indonesia and Thailand. In Jamaica, arrivals are down by 11% compared with the first half of last year; in Turks & Caicos, by 17%. But tourism in Barbados was more sprightly in July to September this year than it had been in January to June.

The problem with tourism is the high running cost of hotels, and all the islands fret about competition from cruise ships and other resorts. Cuba, already (with annual growth of around 20% in the late 1990s) the world's fastest-growing tourist industry, will grow even faster once Fidel Castro goes and Americans

can visit freely. Mexico's Cancun and Cozumel enjoy lower labour costs than most Caribbean countries, and offer the same sun and sea.

Tourism needs stability. But drugs traffic through the Caribbean has been booming, and with it violent crime. A recent estimate by the United Nations Drug Control Programme puts the net regional earnings of the Caribbean drug industry at $3.3 billion, or nearly half the GDP of Jamaica or Trinidad. In Jamaica, tourists are often kept coralled in special resorts behind walls.

Trade liberalisation poses problems for some countries, notably the Bahamas

Caribbean countries frequently argue that their small size entitles them to special concessions in, for instance, current negotiations on the Free Trade Area of the Americas. Trade liberalisation poses problems for some countries, notably the Bahamas, because it will force them to scrap customs duties, their main revenue source. But the requirement for reciprocity also

scares them: “What does the United States want in reciprocity from a country like St Kitts, with 40,000 people?” asks Richard Bernal, the region's head negotiator.

However, argues Alvin Wint of the University of the West Indies in a recent paper, smallness is not always a handicap. Some tiny countries (such as Singapore, which in the early 1970s had the same GDP per head as Jamaica) are wealthy; some giants are poor. The most thriving Caribbean economies are not the biggest but include the Bahamas and Barbados, with their winning tourism and financial services. Economies of scale do not matter equally in all industries. In tourism, small is successful, says Anthony Clayton, of the University of the West Indies in Jamaica: the Caribbean's small destinations make twice as much per tourist as the seven big ones.

“The fundamental competitive advantage of a small economy is the ability to be hospitable to the world, [and]...nimble,” concludes Mr Wint. Well led and well managed, even a dot in the ocean can enjoy economic success.

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About sponsc

Venezuela

The chaos party

Nov 21st 2002 | CARACAS
From The Economist print edition

Now Chavez takes over the police—or tries to

EPA

WHEN the capital's police force has two rival command structures, its main motorway is blocked by burning barricades and the only way its mayor can personally deliver a message to parliament is

when he goes in company with a National Guard riot squad, the word “chaos” seems apt enough. When the secretary-general of the Organisation of American States (OAS) has to take up semi-permanent residence in a country, because that is the only way government and opposition will speak to one another, “ungovernability” is the next word that comes to mind. This vocabulary has become the stuff of the daily news for Venezuelans, as President Hugo Chavez's populist “revolution” falls apart—and the president continues publicly to wonder what the fuss is about.

A continuing death-knell

In the early hours of Saturday, November

16th, Mr Chavez did what his opponents had long predicted, and seized control of the Caracas metropolitan police force (PM). Or rather, he tried to. The ostensible grounds for this unconstitutional act were that Mayor Alfredo Peña—a fiery Chavez opponent—was using the force for personal political ends, putting the lives and security of Caracas residents at risk. The result was a dangerous stand-off, with army and National Guard troops, equipped with machineguns and armoured vehicles, attempting to impose a new leadership on the PM against the will of most of its officers.

The takeover was the brainchild of the radical "Taliban" among the president's allies: Lieutenant Diosdado Cabello, the interior minister; General Jorge Garcia Carneiro, the head of the Caracas military garrison; and Freddy Bernal, a former metropolitan policeman who is now mayor of the Libertador municipality of Caracas. The deafening silence from the armed-forces' high command and the defence minister suggested that they had been left out of the loop.

One reason for the takeover, the opposition groups allege, is that Mr Chavez is deliberately provoking them. His aim is to make them abandon the negotiations chaired by Cesar Gaviria, the head of the OAS, and to head off an imminent referendum on his presidency. A so-called “state of exception”—which would allow the suspension of certain constitutional guarantees—cannot be ruled out. But there is a high price to pay. By failing to consolidate his grip on the police, Mr Chavez looks not only authoritarian but incompetent. He has, in other words, become the leading member of the chaos party.

For the world at large, and the United States in particular, this creates a serious dilemma. Embroiled as it is in the showdown with Iraq, America can ill afford chaos in the oilfields of Venezuela. For the past six months it has been reluctantly cosying up to the leftist president, on the grounds that it would be risky to unseat him. Now that assessment will have to be revised. Already, comments from the State Department have begun to suggest a return to the more frosty relationship of early 2002.

But what to do? By rights, the OAS should wave its brand-new Democratic Charter at Mr Chavez, who is almost certainly in breach of its provisions on the separation of powers. But Venezuela is a principal oil exporter, and few—if any—governments in the region can stomach the idea of a confrontation. Besides, challenging an incumbent elected ruler might set a precedent that could rebound on them. In the past, Mr Chavez, a former army officer with a penchant for coups, has thrown in the towel only when faced with a stronger military force. Could it come to that again?

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Ibero-American summits

Aznar's dream

Nov 21st 2002 | BAVARO, DOMINICAN REPUBLIC
From The Economist print edition

Hearts, minds and policies across the Atlantic

DOES the world need another international talking shop? And a garrulous Latin one at that? “Absolutely not,” insists Spain's prime minister, Jose Maria Aznar. But ever since they began, in 1991, the annual summits of Latin American and Caribbean countries with their colonial forefathers, Spain and Portugal, have been turning into just that.

So Mr Aznar has asked Brazil's outgoing president, Fernando Henrique Cardoso, to draw

up plans for a punchier Latin lobby like, say, the (formerly British) Commonwealth or even the European Union. The beefed-up body could act as a self-regulator, making sure members adopt policies based on “fiscal discipline” and “institutional stability and integrity” (stamping out corruption, confining generals to barracks) which, Mr Aznar says, have served Spain well.

It should, he says, “speak with one voice”. That might be difficult. At present, 21 countries, with 489m people, are represented at the meetings. Some Anglophone islands, such as Jamaica, would like to come too. At this week's summit in the Dominican Republic, there was plenty of wrangling over immigration and EU protectionism. But Mr Aznar dreams on. He foresees a secretary-general of weight and influence to be elected, if next year's conclave approves, around 2004—the year that sees the end of his second and final mandate as prime minister. Mere coincidence?

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Colombia's economy

So much to do

Nov 21st 2002 | BOGOTA
From The Economist print edition

And very little time before Congress adjourns

Get article background

SOME politicians might relax with a 74% approval rating. Not so Alvaro Uribe, Colombia's workaholic, disciplinarian leader. Mr Uribe has proved popular in his first 100 days in office, tearing around the country to listen to problems large and small, and raising confidence with tougher security measures aimed principally at curbing the strength of the FARC, the largest left-wing rebel army. But he

knows the next month could be one of the most crucial in his four-year term.

It was Mr Uribe's misfortune to inherit not just an escalating armed conflict, after three years of fruitless peace talks with the FARC, but also a faltering economy that has never really recovered from 1999's deep recession. Growth this year is forecast to be a weak 1.6%. Urban unemployment affects one in six. Such poverty of opportunity drives many into the ranks of the FARC or the AUC, their paramilitary opponents, or into the widespread illegal drugs trade.

Mr Uribe would like to raise social spending and also needs to pay for his promised military build-up. But over the past decade government spending has outpaced tax income, partly because of extra spending commitments enshrined in a 1991 constitution. The result has been rising debt (now around 50% of GDP) and a fiscal deficit estimated at 4% this year.

A one-off wealth tax decreed in August is intended to raise around $800m. But that is for extra defence spending, and does not address

the fiscal gap. To stabilise the debt burden, the government reckons it needs to generate a primary surplus (ie, before interest payments) of around 3% of GDP. But this year's primary surplus is expected to be only 0.7%-0.9% of GDP. Mr Uribe and his economic team are searching for ways to make up the difference.

As a first step, the president has convinced multilateral bodies to step up lending. The Inter-American Development Bank, World Bank and Andean Development Corporation have together pledged $9 billion or so of loans over the next two-to-three years, while an expected standby agreement with the IMF will give potential access to a further $2 billion over two years. This multilateral support has halted the peso's sharp depreciation and calmed Wall Street. But Mr Uribe has only bought some time; and many loans are anyhow conditional on structural reforms.

Hence the importance of the next few weeks, when Congress is due to approve or reject a raft of measures which Mr Uribe (backed up by investment analysts) deems vital. Lawmakers are studying pension reform to reduce the

future burden of state payments, and labour reforms to cut employment costs. They are also being asked to give Mr Uribe special powers to merge or eliminate some ministries and other parts of the government bureaucracy. Around 40,000 state jobs would be cut during his term, 30,000 of them by not replacing staff who retire.

Another component being considered by Congress—perhaps the most urgent in the short term—is a tax reform designed to raise revenue by 1% of GDP next year and more in subsequent years. Mr Uribe, who at one time wanted a less onerous reform, sees recessionary dangers in imposing more taxes when growth is weak. But the prevailing wisdom is that, in the current fiscal crisis, nothing less will suffice.

With less than a month of normal legislative sessions left, Mr Uribe is clearly anxious. But his supporters have a majority in both houses of Congress, and should be able to get these reforms through before the end of the year. That may be as long as Colombian bond-holders and rating agencies are prepared to be

patient; many of the reforms have been promised for years.

Some spending cuts—another plank of the government's deficit-reduction plans—require constitutional changes, which Mr Uribe wants to put to the public in a national referendum which will also cover political reforms. If Congress approves its text before Christmas, the referendum will probably be held in March. The president must hope he can keep his high approval ratings for another few months, at least.

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About sponsc

Vancouver's new mayor

A Mountie roars in

Nov 21st 2002 | VANCOUVER
From The Economist print edition

Even beautiful cities need hard work

WITH its staggering setting of mountains and sea and its elegant skyscrapers ranged along the bay, small wonder that Vancouver has been rated by the United Nations as one of the best places in the world to live. But Canada's third-largest city has another side: the Downtown Eastside, where crime and drug abuse are rampant. It is the setting for Canada's largest-ever serial murder case, the disappearance of 63 prostitutes over 20 years. Robert Pickton, a 52-year-old pig-farmer, is charged with killing 15 of them; police,

anthropologists and bone experts continue to sift the soil of his farm in suburban Port Coquitlam for more human remains.

For the past 16 years Vancouver has been controlled by a right-wing party, the Non-Partisan Association (NPA), which kept taxes down but did little to tackle the running sores of the Eastside. On November 16th, however, the centre-left Coalition of Progressive Electors (COPE), the perennial opposition, won the mayor's office and most seats on the city council, as well as taking over the school and park boards.

The new mayor is Larry Campbell, a straight-talking 54-year-old who has not tried politics before. Mr Campbell was once a drug-squad officer with the Mounties and chief provincial coroner (becoming, in the process, a model for a crusading coroner in a TV series). Neglect of the Eastside was the focus of his campaign. His NPA rival, Jennifer Clarke, failed to persuade the voters that after nine dithering years on the city council she could take the firm decisions that were needed.

Some see provincial implications in this. Two years ago, the Liberal Party routed the leftish New Democratic Party government of British Columbia, leaving the NDP with only two seats. Since then, Premier Gordon Campbell (no relation to Larry) has imposed tough budget and service cuts. Could the tide be about to turn against such conservative tight-fistedness, as it has in Vancouver? The NDP will hope so, but there was no clear rebellious trend in municipal elections elsewhere.

Mr Campbell promises an open, reformist government that believes “nobody in our city is disposable”. Most Vancouverites clearly liked that message. They refuse, as Trevor Boddy, a local pundit, wrote in the *Vancouver Sun*, “to see their city go Brazilian—a life of splendour seen from a fortress-like apartment tower overshadowing a festering *favela*.”

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Pakistan

The general's new clothes

Nov 21st 2002 | LAHORE AND ISLAMABAD
From The Economist print edition

The military regime is trying on civilian dress. It does not fit

"THE general wants a government which will agree not to rule," is the

jaundice
but
pretty
accurate
assessm
of I.A.
Rehman
director
of
Pakistan
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Human
Rights
Commission.

It has proved a tall order for General Pervez Musharraf, Pakistan's self-appointed president, who seized power in a coup in 1999. The weeks of haggling since elections on October 10th have appeared less an orderly return to democracy than an abject shambles. But by November 21st, when the National Assembly voted in a new prime minister, General Musharraf seemed to have achieved his aim. The assembly elected Zafarullah Khan Jamali, a portly, genial character expected to prove a docile partner for the army. Mr Jamali, candidate of the Pakistan Muslim League (Quaid)—popularly known as the king's party

for its loyalty to the general—secured 172, the precise bare minimum required.

So although his party has won, the king's victory has been both narrow and costly. The new government will be dominated by the PML (Q), with 118 out of the 342 seats in parliament. But its overall majority has been cobbled together with minor parties and by encouraging defections from its rivals—a practice that looks especially unseemly in a country where the constitution was amended in 1997 to ban the practice of “floor-crossing”. (The excuse is that it only counts as floor-crossing once parliament has assembled.)

The process has been murky; the outcome will be fragile. It follows the failure of lengthy negotiations on all possible two-party combinations of the three main groups in the assembly: the PML (Q) itself; the PPP, the party of Benazir Bhutto, an exiled former prime minister, originally with 81 seats, though a block of members went over to the PML (Q); and the Muttahida Majlis-i-Amal (MMA), an alliance of six Islamist parties of varying ideological ferocity, with 60.

The PML (Q)'s talks with Miss Bhutto's party foundered on her insistence that General Musharraf drop corruption charges against herself and her husband, who is in prison in Pakistan. Nor could Miss Bhutto ultimately countenance a pact with the Islamists, under which Maulana Fazlur Rahman, a cleric known for his pro-Taliban, anti-American views, would have become prime minister. Miss Bhutto looks for now to have been outplayed by the general, who has split her party as well as the original Muslim League, though things seldom remain as they are for long in Pakistan's extraordinary politics.

Similar demands scuppered the talks that came closest to success: between the PML (Q) and the Islamists. The MMA also wanted General Musharraf to withdraw measures he has taken to control civilian politicians, such as the right to sack both government and assembly, and the creation of a powerful army-dominated National Security Council. The deal-breaker was the MMA's demand that the general set a date for giving up his role as army chief. In a speech on the eve of the vote, he boasted of having steered Pakistan out of “stormy seas”, promised to hand over his

government responsibilities, but made it clear that he would “continue to perform [his] important role”.

The upshot is likely to be, in the words of the defeated candidate for the Speakership, “a government with a slim majority, which won't last very long and will bring more discredit to the politicians, with the army being a presence in every cupboard and under every bed.”

The upshot is likely to be “a government...which won't last very long and will bring more discredit to the politicians, with the army being a presence in every cupboard”

At least it is not led by Maulana Rahman. But little else gives much comfort to America about the prospects for stability in one of its most important allies in its war against terrorism. The startling electoral performance of the MMA took it to provincial power in the areas blurring into Afghanistan, where American soldiers are

still hunting al-Qaeda terrorists.

Anti-American flames continue to burn high. This week they were fanned by the return, to a huge martyr's homecoming in the town of Quetta, of the corpse of Aimal Kansi, executed in Virginia on November 14th for the murder of two CIA agents in 1993. It did not help when Amir Aziz, a surgeon from Lahore who disappeared last month, reappeared on November 20th. He said he had been detained by the Pakistani intelligence services, and had been grilled by the CIA and FBI about his alleged links with the Taliban.

The Americans have grievances, too. There was bafflement this week at the release of Hafiz Mohammad Saeed, the leader of Lashkar-e-Taiba, a banned militant group. This undermined the tough impression given last week when General Musharraf enacted an anti-terrorism law—much criticised by civil-liberties activists—allowing suspects to be held without charge for up to a year.

Pakistan's alleged co-operation, until very recently, with North Korea's clandestine

nuclear ambitions is another reason to sup with General Musharraf with a long spoon. It is also a reminder that Pakistan is itself a declared nuclear power, in a perpetual state of animosity with India, and has not renounced first use of the bomb.

Nevertheless, in a sign of Pakistan's continued importance to America, Paul O'Neill, the Treasury secretary, was in Islamabad this week, holding out the prospect of the cancellation of $1 billion of Pakistani debts. Like it or not, America needs Pakistan, and vice versa. Which is why the farcical nature of the “return to democracy” is so worrying.

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China's new line-up

Who's in charge now?

Nov 21st 2002 | BEIJING
From The Economist print edition

Is it Hu Jintao, or Jiang Zemin, or even Zeng Qinghong who is emperor after the 16th Party Congress?

Get article background

“AN IMPORTANT sign of a political party's maturity is whether or not it can groom reliable successors.” This was the benchmark set by Hu Jintao, then heir apparent to the Chinese Communist Party's top post, in a speech in April 2000. Vice-President Hu, who took up his long pre-ordained position as party chief last week, warned that the collapse of communism

elsewhere and the toppling of Taiwan's Kuomintang were mainly caused by a “bad choice” of people to take control of these one-party dictatorships. As Mr Hu doubtless sees it, his task now is to prove to his sceptical predecessor, Jiang Zemin, that nothing like that will happen in China.

The Standing Committee

Mr Jiang's lack of confidence in Mr Hu was made abundantly clear on November 15th, when the newly appointed general secretary led his eight colleagues in the Politburo Standing Committee in a brief and awkward line-up before the world's media. Five, or by some analysts' reckoning, six, of the identikit dark-suited, red-tied men (all nine of them

engineers by training) are Mr Jiang's protégés. Mr Hu, who was pencilled in for the top job ten years ago by the late Deng Xiaoping, not by Mr Jiang, finds himself surrounded by people of questionable loyalty to himself. And Mr Jiang, though now retired from the Politburo, remains in charge of the Central Military Commission—commander-in-chief of the armed forces, in effect—a position that gives him enormous power.

Mr Jiang is sure to go on using his protégés to exert behind-the-scenes influence

It is still far from clear when the 76-year-old Mr Jiang plans to step down completely. He is constitutionally obliged to give up his post as state president at the annual session of the rubber-stamp parliament, the National People's Congress, next March (Mr Hu is almost certain to pick up that insignificant title). But Mr Jiang could stay on as military chief indefinitely. The benign interpretation is that he wants to stay around only as long it takes to make sure the new leadership is stable. More likely is that, like all his predecessors, he does not want fully to

relinquish power until ill-health or death force him to do so. Even if Mr Jiang gives up his military position, he is sure to go on using his protégés to exert behind-the-scenes influence.

Mr Jiang might have felt happier about retiring if his closest ally, Zeng Qinghong, were now in Mr Hu's position. But upsetting Deng's succession arrangements might have fuelled dangerous resentment within the party. So Mr Zeng has to be content as number five in the new hierarchy (he is likely to pick up the additional title of state vice-president next March). This, however, will not prevent him from being a powerful potential rival to Mr Hu. As chief of the party's Organisation Department until last month, Mr Zeng played a key role in the selection of officials for promotion in the build-up to the Communist Party's 16th Congress, which preceded the Politburo shuffle. He heads the party's secretariat, which also has a big say in appointments. Mr Zeng is thus exceptionally well placed to expand his extensive network of patronage.

Nothing in the published remarks of Mr Hu, Mr

Zeng or indeed Mr Jiang even hints at any policy difference between them. Mr Hu's remarks have always been deferential to Mr Jiang. He pledged in a secret acceptance speech to “seek instruction” from his predecessor. He has also been full of praise for Mr Zeng, who at 63 is three years his senior. Mr Zeng, in turn, often peppers his speeches with quotations from Mr Hu. Yet Mr Zeng is an ambitious and skilful politician, whereas Mr Hu has distinguished himself only by ploddingly carrying out his duties.

The power Mr Zeng enjoys, indeed flaunts, is widely resented. “If Mr Zeng wanted to become the number one, officials and ordinary Chinese would find it unacceptable, not because he's bad or has connections with any particular person, but just because of the way he behaves,” says a Chinese academic. Interestingly, though, Mr Zeng has spoken with unusual frequency on the need for at least a limited degree of political reform, such as more openness and public involvement in the selection and supervision of officials.

Two of Mr Jiang's other protégés on the new

Standing Committee are also controversial figures. Number four in the hierarchy is Jia Qinglin, who until recently served as party chief in Beijing. Mr Jia was the party secretary of the coastal province of Fujian during the emergence there in the 1990s of a huge smuggling ring in the port city of Xiamen. Many officials say he failed to respond effectively, yet was protected from censure because of his closeness to Mr Jiang. The new number eight, Li Changchun, was party chief in the central province of Henan in the mid-1990s, when thousands of villagers were infected with HIV at official blood-collection centres, news of which he tried to suppress.

In addition to Mr Zeng, Mr Jiang has also succeeded in installing two other close associates from his days as party chief of Shanghai in the 1980s—Huang Ju, who himself served as Shanghai's party boss until last month, and Wu Bangguo, a deputy prime minister who was Shanghai's party secretary in the early 1990s. Mr Wu is now second in the hierarchy and is likely to take over as head of the parliament next March. Mr Huang is number six.

By contrast, Zhu Rongji, who will retire as prime minister next March, has managed to put just one favourite, Wen Jiabao, into the Standing Committee. Mr Wen, who is in the number three position, is likely to take over the premiership. Li Peng, the much-hated parliamentary chief, has secured only ninth position for his ally Luo Gan. Mr Luo failed to secure the anti-corruption portfolio, a role taken by Wu Guanzheng, number seven in the hierarchy, whose loyalties are uncertain. With rumours of corruption swirling around members of his close family, Mr Li might well be uneasy with this arrangement.

Mr Jiang clearly hopes to remain China's paramount leader—as Deng was in "retirement"—for at least the near future, making the question of whether the dull and inscrutable Mr Hu might be a Gorbachev in disguise less pressing. But Mr Hu's speeches so far have been far from visionary. "Western hostile forces led by the Americans are intensifying their efforts to westernise and break us up," he said in May last year. "We must lead our cadres to gain the upper hand in the struggle between subversion and counter-subversion, containment and counter-

containment, separatism and counter-separatism." The cadres get the message.

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Indonesia

Ceasefire in Aceh?

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Peace may at last be in prospect in Indonesia's rebellious north

THE province generally known as Aceh, at the north-western tip of Indonesia, was last

year officially named “Aceh, Abode of Peace”. Despite being an ancient historical title, it is sadly inaccurate.

The Acehnese have long battled for independence, first from Dutch colonialists, and later from the government of Indonesia. Since the latest insurgency began in 1976, tens of thousands have been killed, most of them civilians. But on December 9th, the province's name should become a little more apt. That is when the government and leaders of the Free Aceh Movement (known by its Indonesian acronym, GAM) are due to sign a peace deal.

The agreement proposes an immediate ceasefire, followed by an “all-inclusive dialogue” about the political future of this

province of 4.5m people and, in 2004, by elections. In the meantime, the Indonesian army is expected to withdraw some of its forces, while GAM will begin to disarm. Special “peace zones” are to be demilitarised altogether, paving the way for humanitarian aid and reconstruction.

But several issues need to be settled before the deal can be signed. The two sides do not yet agree on where the “peace zones” will be, or what sort of police force will keep them peaceful. Nor have they yet fixed the mechanism for disarming GAM. The current idea, of depositing weapons in independently monitored cantonments, sounds suspiciously similar to a system that has done little for the peace process in Northern Ireland. Some GAM members are already disavowing the deal. And even if all these questions are resolved in time for the signing, the deal could still come unstuck later, like a previous ceasefire the two sides signed in 2000.

On the other hand, the Henry Dunant Centre, a Swiss organisation that brokered both deals, seems to have learned from its past mistakes.

There will probably be around ten times more monitors than before to verify that both sides are keeping to their promises, although the exact number has yet to be fixed. This time, a third of the monitors will be foreigners.

The agreement also tries to plan for the worst, by acknowledging that renegade elements on either side might try to scupper the ceasefire, and prescribing joint action to counter such a move. What is more, both sides have made critical concessions: GAM by agreeing to set aside the goal of independence for the time being, and the government by allowing foreign monitors to meddle in what it has always considered to be an internal matter.

However, that does not necessarily mean that both sides are acting in good faith. Some Acehnese argue that the government is too taken by its recent military successes to allow the detail of the peace agreement to work. Others say that GAM is only feigning acceptance of the agreement to save the skins of a big group of its fighters under siege in a swamp near the town of Lhoksumawe, and to regroup.

But even on that score, there are grounds for hope. If the Indonesian government really thought it could deliver GAM a knockout blow, it presumably would not have hesitated to do so. The likelihood is that the insurgency would have continued, even after a disastrous defeat for GAM, albeit at a lesser intensity. Both sides might genuinely see a peace deal as preferable to that.

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Japan

A long winter's nap

Nov 21st 2002 | TOKYO
From The Economist print edition

The export fillip behind it, Japan's economy looks set for another snooze

Get article background

HOW bad is it? Judging by the political rhetoric and a

recent slide in bank shares, Japan's economy risks another dive like the one it took in 2001. In reality, the short-

term outlook for demand is not so alarming. Exports to America and elsewhere are slowing. Rather than tumbling, however, the economy seems to be settling comfortably into the state in which it has spent most of the past decade: flat on its back and half asleep.

The Organisation for Economic Co-operation and Development (OECD), which released its latest survey of Japan's economy on November 19th, is forecasting virtually flat growth—but no real recession—until after the end of 2004.

That assessment may reassure some of Japan's leaders, who fear short-term pain above all. But it offers little solace to those, like the OECD itself, who worry about Japan's medium- and long-term problems and the steady erosion of its national finances. When it gave warning in its report that “there is no more time to be wasted”, the OECD was calling for a much more thorough plan than the sorts of fiscal measures being debated this week by the ruling Liberal Democratic Party (LDP).

Though he was still jostling with his fellow LDP members over the budget this week, Junichiro Koizumi, the prime minister, has already conceded that Japan will need to borrow more than the ¥30 trillion ($250 billion) to which he had pledged himself. Tax shortfalls alone have made it hard to stay beneath the cap. This week, an additional ¥3 trillion in public works and tax breaks was allocated to a planned supplementary budget.

Along with Mr Koizumi's recent stumbles over bank reform, the slowing economy has strengthened the hand of the LDP traditionalists. Although GDP grew at an

annualised 3% in the third quarter, exports stopped contributing to growth the way they had in the first half of the year. With demand from America and elsewhere likely to remain weak for at least the immediate future, that will leave Japan dependent on its feeble domestic economy. Since confidence is shot, business investment seems especially unlikely to help on the home front. The most reliable gauge of investment trends, reckons Richard Jerram, chief economist at ING Barings in Tokyo, is firms' machinery orders. These fell 1.7% (6.5%, annualised) in the third quarter.

Regardless of what the party screws out of Mr Koizumi, however, another fiscal stimulus is unlikely to do much for the economy's bigger problems. Since the next fiscal year begins in April, the LDP and its coalition partners were pushing for a supplementary stimulus in the meantime of up to ¥5 trillion (1% of GDP), not counting falling tax revenues. Mr Jerram points out, however, that even if the government spends ¥1.5 trillion more than planned on public works, spending on such projects will still fall overall because of the cuts already enacted.

As the OECD argues, however, a radically reflationary monetary policy, which the Bank of Japan still resists, would probably have more impact than fiscal measures. So even as he spars with his party over taxes and spending, Mr Koizumi's most important struggle—apart from minding those embattled banks—will be over whom to appoint as the central bank's next governor in March.

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Australia

The parched earth

Nov 21st 2002 | SYDNEY
From The Economist print edition

The “lucky” country's worst drought for a century

EPA

FOR most of her working life, Fran Rowe has been helping other farmers through crises. With a voice and a manner as dry as the dusty road that runs past

“Bombah”, her farm outside the small town of Tottenham in western New South Wales, Mrs Rowe, a rural counsellor, is as skilled at going head to head with demanding bank managers as she is at offering advice to neighbours on the art of stretching their budgets. But with Australia now gripped by what some authorities say is the worst drought in a century, Mrs Rowe and her husband, Peter, are themselves at the mercy of fortune. Their wheat crop has failed. They are selling their sheep. The reservoirs that supply the only water for their livestock will run dry in a

month. They have even warned their daughters and grandchildren, planning to come home for Christmas, that the dwindling house water will not stand extra showers.

Apart from a few passing drizzles, it has not rained across most of Australia since February. New South Wales and Victoria, the two most populous states, and the mainstay of the country's agricultural output, are the worst affected: 99% of New South Wales has been declared a drought zone. The scene in the outback is even more desperate. Iva Holberton, who manages the rail depot at Cook on the Nullarbor Plain in South Australia, reported seeing emaciated wild camels wandering south in search of water, licking moisture off the rails and being killed by speeding transcontinental trains.

Sydney is blanketed by smoke from 60 bushfires raging around New South Wales, and Melbourne by red dust blowing in from the desert. Farming accounts for 3% of Australia's economic output, half what it was 20 years ago; but the drought's impact could shave up to 1% off Australia's growth next year,

according to some forecasts.

The drought is another episode in the story of Australia's problems of meagre water supplies and volatile climate. It is the world's driest continent with one of the poorest natural drainage systems. The Murray River, whose system feeds much of eastern Australia's farms, recently stopped flowing into the sea for what geologists believe is only the second time in 8,000 years. Demands on it have almost doubled in 20 years.

Andrew Campbell, of Land and Water Australia, a federal research body, suggests that Australians are in “collective denial” about their climate: droughts bring soul-searching; but when the rains return many city dwellers and farmers alike go back to using water freely. There has even been a revival of the notion, that many thought had died 50 years ago, of turning Australia's coastal rivers inland to water the outback—a reflection of the belief that the land should conform to the people, rather than the reverse.

But there are positive signs of change. The

drought follows several boom seasons. This means that farmers who have managed their affairs well, such as the Rowes, will ride it out; younger ones, with high debt levels, are staring at ruin. Learning lessons from earlier crises, farmers have put more than A$2 billion ($1.1 billion) into a scheme called farm-management deposits, from which they can draw at lower tax rates to survive the drought. The federal government has announced more money for climate-forecasting technology. Many farmers are overcoming the “tyranny of distance” to use the Internet to track long-range weather forecasts and make decisions about the optimum time to invest. As Mr Campbell says, “Smart farmers make a lot of money in droughts: they sell at the right time and buy at the right time.” But with no drought-breaking rains expected before April, even the smart ones will be challenged.

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Israel and the Palestinians

Bloodshed and its punishment

Nov 21st 2002 | JERUSALEM
From The Economist print edition

R

Palestinian acts of violence, in Jerusalem and in Hebron, call for a response. But a plan to expand Jewish settlement in Hebron is misconceived vengeance

HOW will Ariel Sharon respond to the latest act of Palestinian terrorism against Israel? On November 21st a suicide bomber killed at least 11 people on a Jerusalem bus carrying people to work and children to school. It was the first suicide bombing in Israel since the beginning of the month, and the first in Jerusalem since June. The prime minister, facing an election in January against a rival, Binyamin Netanyahu, who is attacking him from the right, will be under pressure to be even tougher, and less merciful, than usual.

Earlier this week Mr Netanyahu had been repeating his mantra—that Yasser Arafat be deported and the Palestinian Authority dissolved—after a bloody incident in Hebron on November 15th when 12 Israeli soldiers and security men (including the colonel commanding the Hebron area) had been ambushed and killed in a lengthy firefight with

three Islamic Jihad gunmen. Mr Sharon resisted his rival's call: the Americans have made it clear that they would consider it a bad mistake. But the temptation to act against the Authority will be stronger now: Israeli voters hold it responsible, at the very least, for not doing enough to stop terrorism.

Mr Sharon had a different answer for Hebron, and one that in the long run is little less dangerous The soldiers had been escorting a group of worshippers back to Kiryat Arba, the large Jewish settlement just outside Hebron, after their Sabbath eve prayers at the Tomb of the Patriarchs inside the city. “I have instructed the army”, said the prime minister, “to study the possibility of creating territorial contiguity” between Kiryat Arba, the Tomb and Jewish enclaves inside the city. His proposed settlement salient would encompass the Tomb, known to Muslims as the Ibrahimi mosque, the towering Herodian structure in Hebron that houses shrines sacred to both Jews and Muslims. It would be the most blatant repudiation of the Sharon government's purported policy of not building new settlements in the Palestinian territories—though a slew of caravan-outcrops dotted

around the West Bank already give the lie to that policy.

The 450 Jewish settlers inside Hebron, and the 6,000-odd in Kiryat Arba, did not see the prime minister's suggestion as mere campaign hype. They are well-schooled on how to turn bloodshed and tragedy into territorial gain. In the past, each attack against them has resulted, through their persistent political lobbying, in further creeping annexation. Just this year, a cluster of hard-core caravan dwellers at an archaeological site in the city, shot at almost nightly from the Palestinian parts of town, finally got the defence ministry to approve a new stone-and-concrete complex. This, they intend, will become the latest Jewish residential enclave in the city of 130,000 Palestinians.

The Hebron settlers include violent groups. They

can embarrass Mr Sharon, both with middle-of-the-road Israelis and with the American administra At the same time, Mr Sharon retains a basic sympathy with the settlers' goals.

The ambush occurred in the part of Hebron that is still Israeli-controlled. The city was divided in 1997: in return for being allowed to transplant himself and his fledgling Palestinian Authority from Gaza to the West Bank, Yasser Arafat agreed that Israel should retain

“interim” control over the religious and commercial heart of the second-largest city in the West Bank. Some 30,000 Palestinians live in this part of the city, together with the settlers. When Mr Sharon seemed to suggest that, under the proposed arrangements, the number might be reduced to 2,000, it confirmed the Palestinians' deepest fears about the prime minister's intentions.

Since the *intifada* erupted in September 2000, the Palestinians in the Israeli enclave have been under more or less permanent curfew, schools have been commandeered as army bases, and businesses have closed because Palestinian cars (including ambulances) and sometimes pedestrians are prevented from entering the area from the rest of Hebron. The settlers, protected by some 1,000 soldiers, are free to come and go as they please, whether there is a curfew or not. The area is heavily policed with floodlit observation posts and army checkpoints, plus settler vigilantes who routinely vandalise, and sometimes burn, Palestinian properties.

In immediate reprisal for the ambush, the

Israeli army razed several Palestinian houses on the site. Within 24 hours, Jewish settlers had established a new “outpost” on the ruins. Army bulldozers uprooted a nearby Palestinian olive grove and, on November 18th, the government issued demolition orders for 15 Palestinian houses that line the route from the enclave to Kiryat Arba. “The army avenges,” said a settler spokesman. “And we will build.” Ordinary Palestinians face suffering for the ambush. But a much greater number may now be punished for an unconscionable act of terrorism in Jerusalem.

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About sponsc

Anti-terrorism in the Gulf

Rooting out their radicals

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Saudi Arabia, Kuwait and Yemen have to admit that all is not as it should be

AP

PRINCE NAYEF, Saudi Arabia's dour and taciturn minister of the interior, likes to pretend

that all is well in his kingdom. Only now, a year after the attacks on America, has he confessed to holding some 100 Saudi nationals, charged with links to terrorism. This revelation, which followed a noon shoot-out in central Riyadh on November 16th between the police and a group of Saudi veterans from the Afghan war, comes amid signs that security forces across the Arabian peninsula have adopted more aggressive tactics to root out their home-grown radicals.

Kuwait now shoulders terrorism

The change is a response to a growing sense of threat. This, say analysts, springs not so much

from al-Qaeda itself, since most of that organisation's “assets” are believed to have been established “offshore”, out of reach of the Arab states that were hostile to it long before September 11th. Rather, the threat comes from small groups of fellow-travellers swayed by the romance of Osama bin Laden, fired by America's perceived belligerence towards Muslims, and supplied by a flourishing clandestine trade in small arms.

Since September 11th, such groups have been responsible for relatively minor attacks, such as the recent shootings of American soldiers in Kuwait. The worry that something bigger may be in store has prompted moves not only against al-Qaeda, but against the group's potential sympathisers. These include radical preachers, and some of the region's 20,000 or so veterans of the Afghan war against the Soviet Union.

The Kuwaiti authorities are interrogating three Afghan veterans accused of funnelling cash to al-Qaeda operatives in Yemen. Initial reports suggested that the arrested men, among them a former captain in the Kuwaiti army, had

financed the attack last month on a French oil tanker off the Yemeni coast. The money, sent via Saudi intermediaries, was apparently also intended for an aborted car-bomb attack on a hotel in the Yemeni capital that is frequented by American security people.

The suspects have since retracted their confessions, but their arrests, along with those of two Muslim preachers who praised attacks on American soldiers, mark a change in tactics. Until recently, the Kuwaiti police had been reluctant to pursue and prosecute their own citizens for fear of stirring a backlash by powerful Islamist politicians. Kuwaiti press reports, meanwhile, hint that another suspect, recently taken into American custody and claimed by American officials to be one of the top 20 al-Qaeda commanders, was captured in the emirate.

In Yemen itself, tension has been roused by the November 3rd rocket strike from an American drone aircraft that killed six suspected al-Qaeda fugitives. The attack sparked a firestorm of public protest over what was seen by many Yemenis as a breach of

sovereignty. The government, forced by Pentagon leaks to admit its collaboration with America, has belatedly pleaded that it is simply conforming to UN resolutions that demand co-operation in fighting terrorism. This has not staunched a series of firebomb attacks on the homes of Yemeni security officials, claimed by a group calling itself the Sympathisers of al-Qaeda.

Even so, American aircraft operating from Djibouti continue to monitor remote areas along Yemen's border with Saudi Arabia. Tribal sources in the north-east of the mountainous country have reported a build-up of government forces—some say backed by American troops—in anticipation of a wider ground sweep in search of al-Qaeda renegades. Yemen is not only Mr bin Laden's ancestral homeland, but also a breeding ground for Islamist radicalism. So the decision to give full backing to America's war on terror is extremely risky for the government.

By contrast, the rulers of Saudi Arabia have long seen their religious radicals as more of a nuisance than a threat. The indulgently

paternalistic attitude is typified by Prince Nayef. “I am sure most probably there are no Saudis, Muslims or Arabs involved,” was his response to the most recent Riyadh bombing, on September 29th, which killed a German businessman.

Seven western “alcohol smugglers” still languish in Saudi prisons charged with earlier bombings, despite the fact that the attacks continue. Members of the royal family paid stipends to the families of the 15 Saudi hijackers, and the 125 Saudis held at Guantanamo. But, with a deeply unpopular war with Iraq on the horizon, even Saudi Arabia is now hardening its attitude towards its local radicals.

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About sponsc

Eritrea's non-democracy

We fought for this?

Nov 21st 2002 | ASMARA
From The Economist print edition

A once-admired ruler turns tyrant

NOT liking criticism, Eritrea's president, Issaias Afwerki, has more or less criminalised it. Eleven dissident politicians and a clutch of journalists, students and others have been jailed, without charge, for more than a year. Long-awaited elections have been postponed and all private newspapers shut. The country, once hailed as a model for Africa, is slouching into tyranny.

Eritrea so nearly got it right. After independence in 1991, investors flocked to

Asmara, its perfectly-preserved art deco capital, loving its spotless streets, espresso bars, and reformist government. Mr Afwerki, a hero of the country's terrible 30-year struggle to secede from its giant neighbour, Ethiopia, was popular both at home and abroad. Eritreans admired him, and Bill Clinton included him in his “new generation” of African leaders. He was even on good terms with Ethiopia. But with breathtaking speed, he has managed to alienate practically everyone.

In 1998, for no reason that could remotely justify the ensuing carnage, Mr Afwerki went back to war with Ethiopia. The two countries made peace again in 2000. Since then, nothing seems to have gone to plan. Elections scheduled for the end of last year have been put off indefinitely. Many members of Mr Afwerki's cabinet, including several men who shared with him the hardships of the liberation war, have been sacked or jailed. The government says its prisoners were working to destabilise Eritrea on behalf of foreign enemies. It cites the fact that, last month, some dissidents met in Addis Ababa, Ethiopia's capital, to discuss plans for a “government-in-exile”, which would work to overthrow the

president.

America has publicly accused the Eritrean government of violating human rights; it is particularly angry that two locals employed by the American embassy in Asmara have been held without charge for a year. Mr Afwerki responded by accusing the CIA of trying to overthrow him, which America denies. Aid still flows to Asmara, but America has put on hold plans for military co-operation with Eritrea, using its tiny neighbour, Djibouti, as a regional base instead.

Mr Afwerki insists that it is too early to talk about democracy, so soon after a war that threatened Eritrea's very existence, and adds that simplistic, western political formulae may not suit Eritrea, anyway. But these explanations no longer satisfy many Eritreans. Most of the country's older generation either fought, or lost family members, in the two wars, and have seen little reward for their sacrifices. They are anxious to start rebuilding their lives, but Mr Afwerki is demanding yet more sacrifices from them—or, rather, from their children.

Despite repeated promises, most of the 200,000 young men and women called up to fight Ethiopia, out of a population of only 4m, have yet to be demobilised. Many have been sent to guard the country's border with Sudan, another neighbour Mr Afwerki fears. Others have been put to work, compulsorily, building roads, dams and houses, often in difficult conditions and for less than $40 a month. Meanwhile, agriculture is neglected, leaving more than 1.4m Eritreans in need of food aid, and private businesses and government offices cannot recruit. But the government, which increasingly consists of army officers, continues to conscript yet more young people for national service.

Many Eritreans would like to emigrate, but first they must apply for an exit visa. These are growing hard to obtain: many applicants with offers of jobs or scholarships abroad have been turned down. Given the country's dependence on remittances for foreign currency, this practice seems particularly loopy.

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About sponsc

Corruption in Mozambique

Who killed the fly?

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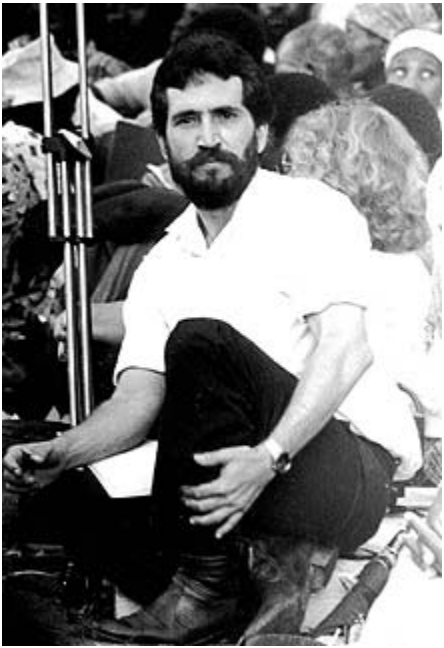
The suspects are naming names, some of them very high up

Reuters

“THEY called him a nuisance, a pestering fly that was always there.” Nina Berg's husband, Carlos Cardoso, an

investigative journalist in Mozambique, was murdered by gunmen in November 2000. His widow has no doubt that it was because he challenged too many powerful people. In particular, Cardoso took too much interest in a 1996 bank scandal, in which about $14m was looted from Mozambique's largest bank, BCM, on the eve of its privatisation. Other journalists forgot about it, but Cardoso kept digging, and eventually caused the attorney-general and six others, whom he accused of deliberately bungling the



Cardoso dug too deep

investigation, to be sacked. A few months later, he was shot dead.

His six alleged killers went on trial this week, in a tent in the grounds of a top-security prison. One of the accused is being tried *in absentia*, having disappeared from jail two months ago, apparently after threatening to expose his ties with senior members of the ruling party, Frelimo. The remaining five all claim to have been acting as go-betweens for bigger fish. One of the accused, Manuel dos Anjos Fernandes, has admitted taking part in the killing but claimed to have acted on orders from Nyimpine Chissano, the son of the president of Mozambique, Joaquim Chissano. Other well-known businessmen and politicians have also been named.

Mozambicans watched the opening arguments live on television, but then the judge barred cameras from the courtroom, arguing that they might prejudice the trial. Details are sure to leak, however. People hope the case may cast light on several murky issues. For example, who murdered the official in charge of banking supervision, Antonio Siba Siba, last year? He

was also investigating banking scandals.

More broadly, how corrupt is public life in Mozambique? Dangerously so, seems to be the answer—though the economy is booming, nonetheless. The president of the Supreme Court, Mario Mangaze, recently admitted that the judiciary is riddled with extortion and bribery. Albano Silva, a lawyer who survived an assassination attempt while investigating the BCM scandal, says he fears that the state is being taken over by organised criminals.

Pressure from donors probably helps to keep graft in check; few believe this trial would have happened without it. The pesky flies of the press still do a bit of pestering, but they are ill-paid and subject to intimidation. In one bizarre incident, three journalists probing the president's son were sent dozens of live chickens, allegedly by the president's wife, Marcelina. They saw this as a threat (Nyimpine Chissano is known as the “son of the cockerel”). The president's wife denies any wrongdoing.

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The politics of an oil spill

An accident at sea creates much froth

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From The Economist print edition

The desire to blame someone for this week's oil spill has produced more heat than light in several European countries

AS MUCH claptrap as oil had flowed out of the tanker *Prestige* before it sank, in two pieces, 245km (about 150 miles) off the coast of north-west Spain this week. Some came from environmentalists, overstating the likely disaster to marine life (see article). Most came from the Spanish government or its offshoots.

The ship, carrying 77,000 tonnes of heavy oil, was bound from Latvia to Singapore when it

ran into heavy weather on November 11th and on the 13th sent out a distress call saying the hull had ruptured and oil was leaking. The captain and the Greek operator, acting for Mare Shipping, nominally Liberian but in practice Greek, thought it should be towed into a Spanish port. Spain's authorities refused, but it drifted shoreward anyway. So, at Spanish insistence, the *Prestige* was eventually towed well out to sea and then south, toward Portuguese waters. Meanwhile, several thousand tonnes of oil that had already escaped were polluting the Spanish coast, forcing fishermen, lobstermen and gatherers of shellfish to stay at home.

Portugal then took a hand, sending a frigate to make the tugs turn westward, farther out to sea. The final decision was with the weather: twisted by the seas, on November 19th the ship, watched by a Spanish frigate as well, broke in two and went down, leaking more oil but even so taking maybe nine-tenths of its cargo to the bottom. There, at about 3,600 metres, the cold and pressure, say experts, will turn the oil into a gel, which will in time float up, but may stay there for decades, doing no harm.

But the costs already incurred by Spain's fishermen are real; so too the risk to next year's tourism, not least in the celebrated *rias*, the beautiful inlets along the coast of southern Galicia. The clean-up—already under way, though south-westerly winds were driving more oil onto the beaches even as the army and others worked to clear them—will take months and cost many millions of euros.

The political froth should be easier to disperse. It began with the Spanish government and the European Union's transport commissioner, Loyola de Palacio, a Spaniard, whose older sister Ana happens to be Spain's foreign minister. Though EU commissioners are meant, indeed sworn, to leave national loyalties at home, she was already notorious for her zeal to defend Spanish interests—in farming, for instance—sometimes even to the embarrassment of her home government. This time too she did not let down her admirers.

The first Spanish line was that the 26-year-old *Prestige* should have been properly inspected in the British colony of Gibraltar when it called there, and had not been. Ms de Palacio went

further, saying here was another example of the tax evasion, smuggling and general bad behaviour that Spaniards claim to be typical of the colony. It is indeed a popular bunkering place for ships (which involves no smuggling, but displeases its Spanish competitor, Algeciras). Quite separately, it is a place where local Spanish motorists happily fill up with cheap petrol and forget to tell the customs men on their way back home. The *Prestige* was not carrying petrol.

No matter; the next line was that the ship had been bound for Gibraltar. That was “very plain”, said Spain's prime minister, Jose Maria Aznar; “an objective fact”, said his deputy, Mariano Rajoy. “Nonsense,” said British diplomats, irked, even they, at this attempt to turn the stricken ship into a weapon in the two governments' debate about the future of the colony, over which both—against Gibraltarian wishes—want to share sovereignty.

The British were right: the *Prestige*'s destination was indeed Singapore. And that inadequate inspection? EU countries are meant to inspect 25% of all ships visiting their ports.

The British snorted tartly that within the past five years the *Prestige* had called at many EU ports, including Algeciras and Las Palmas, in the Canary Islands, legally part of Spain; and only once, last June, had it moored at Gibraltar—outside the port, to refuel. As for the European Commission (read: Ms de Palacio) it should have fact-checked its charges, and would it now kindly withdraw them.

In sum, much ado about pure, or politically inspired, fantasy. Less so was environmentalists' criticism that Spain should have let the ship come inshore, or even into port, for the oil to be transferred to another vessel; the operator's lament that Spanish police had arrested the captain for refusing to start his engines to take the ship offshore (which would further damage its hull, he said, as it indeed did when he later complied); and some growls from Portugal at the way the Spaniards had had the vessel towed in a direction that endangered Portuguese coasts too. Mr Rajoy would have none of it: Spain had “scrupulously” done all it was required to; nay, its decisions had averted a far worse disaster.

The real issue was forcefully raised by President Jacques Chirac: what now? “Draconian” measures, he suggested, recalling the tanker *Erika*, which ran aground and similarly ravaged France's Brittany coast in 1999. He condemned those, “especially at European level”, who had failed to prevent the *Prestige* affair. In fact, the *Erika* wreck did, in 2000, inspire two sets of fresh rules from Brussels. But (thanks to national governments, not the European bureaucrats) they will begin to come into force only next July.

Still, even today's rules might have caught the *Prestige*. Not the one banning single-hull tankers, like it, once they reach a certain age: the *Prestige* had three years to go. But the 25%-inspection rule is already in force. Yet of more than 10,000 inspections each year, the EU commission claims, only 700 are really thorough. And of two countries that the commission accuses of not meeting even their nominal quota, one is Ireland and the other, oops, France.

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France's new right

More than just a name-change?

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Does a new name for the mainstream right mean it is truly united, for once?

SO NOW we know. France's centre-right has a new name. After weeks of arcane wrangling—one bizarre proposal was “La Maison Bleue” (the Blue House)—the UMP, formed earlier this year to re-elect President Jacques Chirac, no longer stands for the self-explanatory “Union pour la majorité presidentielle”. Now, following a special convention on November 17th, it is the “Union pour un mouvement populaire”. Big deal, scoff

the cynics, unimpressed by the predictably grandiose speeches, the star appearance of Jose-Maria Aznar—centre-right prime minister of Spain—and the Internet voting by those party faithful unable to get to the conference hall on the outskirts of Paris.

Yet there are two reasons why the scorn may be misplaced. One is that the UMP will have a decisive role in the next presidential election, due in 2007. Why else was it so important for Alain Juppé, once Mr Chirac's prime minister and always one of his favourites, to be elected the re-named UMP's very first president?

The second is that for the first time in the 44 years of the nation's “Fifth Republic” the right can reasonably claim to be united in a single party. From the alphabet soup of French politics, the UMP has embraced the Gaullists' RPR (Rally for the Republic, founded by Mr Chirac) and the free-marketeers' DL (Liberal Democracy), and enticed massive defections from the Europe-minded UDF (Union for French Democracy) of François Bayrou and the more nationalistic RPF (Rally for France) of Charles Pasqua.

Only the parties of the extreme right, with whom Mr Chirac will have no truck, are definitively outside the fold. On the theory that a united party of the right will then be matched by a united party of the left, France may therefore now be on the road to a two-party system familiar to voters in countries such as the United States, Britain, Australia, Spain or Germany.

For the moment, that theory looks plausible enough. Earlier this month, François Hollande, leader of a Socialist Party still shell-shocked by the presidential and parliamentary losses suffered between April and June, said: “I don't believe in the possibility today of a single party of the left.” A week later the same Mr Hollande reacted to the UMP convention by declaring: “We have the same need for unity and cohesion but not the same method.”

If by method Mr Hollande means the arm-twisting that gave birth to the UMP, then the Communists and the Greens—part of the Socialist-led coalition in the last government—will doubtless be relieved. The hard fact, however, is that both were humiliated in the

spring elections and risk being further marginalised by proposed changes to the electoral system.

In other words, if the left is to match the UMP, it will be up to the Socialists to present a united front at a special congress due to be held in Dijon next May. That implies an end to the doctrinal tensions that have existed between old-guard Socialists such as Henri Emmanuelli and the modernisers led by Dominique Strauss-Kahn and Laurent Fabius—and also an end to the personal bad blood that has often set Messrs Strauss-Kahn and Fabius at odds.

But could the scoffers turn out to be correct? Since France does not have an American system of presidential primaries to sort out rival contenders, it is entirely possible that the French right will revert to its traditional norms of backbiting disunity: witness the way Mr Chirac conspired to thwart the re-election of President Valéry Giscard d'Estaing in 1981. After all, just as Mr Juppé dreams of the presidency in 2007, so doubtless does Nicolas Sarkozy, at present climbing in the opinion

polls thanks to his energy as minister of the interior. And why not a bid by Jean-Pierre Raffarin, increasingly at ease as Mr Chirac's prime minister? Or even, muse some, a bid for a third mandate by President Chirac, a man who has always enjoyed both the pursuit of power and its trappings?

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A German review of history

Another taboo broken

Nov 21st 2002
From The Economist print edition

A German historian describes German civilian suffering in the last world war

FOR decades after the second world war, Germans could not bring themselves to talk about their own wartime suffering. Their burden of guilt was simply too great. But more than half a century later, the old taboos are gradually being broken. A German historian has now written a book about the allies' bombing of war-time Germany, in which the Germans are for once depicted as victims rather than villains.

In “The Fire”, Jörg Friedrich says that more than 1m tonnes of bombs were dropped by the British and Americans on 1,000 German towns and villages between 1940 and 1945, killing some 635,000 civilians, many of them children, in a deliberate campaign to undermine civilian morale. It was, he says, “the biggest catastrophe on German soil since the Thirty Years War [of the 17th century]”. Yet, apart from the fire-bombing of Dresden and Hamburg, it is barely registered in the official German collective memory.

The 58-year-old Mr Friedrich says that, like most Germans of his generation, he originally regarded the bombing as “the right response to the crimes of the Third Reich”. But he changed his mind. The mass-circulation daily newspaper *Bild* (Picture) is serialising extracts of his book.

It is still rare for a German to take a public look at the second world war from a German perspective. But things are changing. Earlier this year, Günter Grass, a Nobel prize winner, caused a tidal wave of agonised German heart-searching with his novel “Im Krebsgang” (Crab

Walk), in which he relates the disaster of a German transport ship carrying German refugees from eastern Prussia, which was sunk off the Baltic coast by Russian torpedoes in early 1945 with the loss of 7,000 lives, mostly women and children.

“Never,” says the Old Man, Grass's *alter ego* in the book, “should we have kept silent about all that suffering simply because our own guilt was overpowering and our professions of regret paramount for all those years, for we abandoned the suppressed reality to the right-wingers.”

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Italy and the law

An extraordinary verdict

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However disputed, the conviction of an ex-prime minister for murder shocks

“I'M STRUGGLING to accept such an absurdity.” That is how Giulio Andreotti, a dominant figure in post-war Italian politics, reacted to a verdict from an appeals court on November 17th that found him guilty of complicity in murder.

Many Italians plainly agree; and many politicians, unwilling to believe Mr Andreotti capable of such a crime, expressed surprise—and criticised the verdict. So did a clutch of

church luminaries. Silvio Berlusconi, Italy's current prime minister, joined the fray. But the murdered man's sister was bitter. “Not a word about my brother,” she said. “Yet he was the victim”.

The court in Perugia sentenced Mr Andreotti, 83, who served seven times as Italy's prime minister, the last in 1992, to 24 years in jail for ordering the murder in 1979 of a journalist, Mino Pecorelli, who ran a political magazine in Rome. Also given the same sentence was Gaetano Badalamenti, a Mafia boss already serving a long stretch in the United States for drug trafficking.

The case against Mr Andreotti was based largely on circumstantial evidence. It was the testimony of the late Tommaso Buscetta, the first high-level Mafia *pentito* (supergrass), that implicated Mr Andreotti in Pecorelli's murder. He and other *pentiti* told prosecutors that Pecorelli, who had close connections with the Italian secret services, was about to publish extremely damaging allegations about Mr Andreotti when he was shot. These supposedly concerned the kidnap and murder of Aldo

Moro, the chairman of the Christian Democrats (and a former prime minister), by the Red Brigades in 1978, and revelations that Moro apparently made while in captivity.

The verdict overturned Mr Andreotti's and Mr Badalamenti's acquittal in the case in 1999. However, the appeals court upheld the acquittal of four other defendants (a former Rome prosecutor, two *mafiosi* and a right-wing terrorist), two of whom were the alleged gunmen. So the court sentenced the plotters of the murder but cleared the alleged executioners.

Illogical, say critics of the verdict. The appeal court's detailed judgment, however, has yet to be published, so it is not yet clear why it reached a guilty verdict. A different interpretation of circumstantial evidence may be the logical answer.

So who were the people who arrived at opposing verdicts on the same evidence in the two courts? In each of the lower and appeals courts, the judges consisted of two professional judges and six jury members,

drawn from the general public. Verdicts are reached by majority. There is no way of knowing directly whether the two professional judges dissented.

This did not stop Mr Berlusconi from instantly trashing the verdict and lambasting the judiciary. Himself a current defendant in a judges-bribing trial in Milan, he said that the verdict echoed his own experiences at the hands of judges. “Mr Andreotti is the victim of justice gone mad,” he said. “Politicised sections of the judiciary have sought to change the course of political democracy and rewrite Italian history.”

Alessandro Benedetti, a lawyer for Pecorelli's sister Rosita, who is a co-plaintiff in Mr Andreotti's prosecution, said he was saddened by the reaction of “a political class outraged because one of its own had been found guilty”.

Time is on his side

Mr Andreotti will appeal against the verdict to the final appeals court. In Italy, no one is

considered guilty until a definitive conviction in this court. Mr Andreotti is unlikely ever to go to jail.

But that is not the end of the story. Another appeals court, in Palermo, the Sicilian capital, is expected to give its verdict next month on an appeal by prosecutors against Mr Andreotti's acquittal on charges of association with the Mafia in 1999 after a four-year trial. This case against him is that he put his political influence at the disposal of the Mafia and used that association to bolster his influence in his own Christian Democratic Party. If it were accepted as a judicial fact that a politician of Mr Andreotti's standing helped boost the Mafia's fortunes, another huge furore would certainly ensue. And Italy's grim reputation as a country which either has had (or has) crooked leaders or a biased judiciary would suffer still more.

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Turkey's government

So far so good

Nov 21st 2002 | ANKARA
From The Economist print edition

Turkey's new government may even help break the stalemate over Cyprus

AP

Get article background

NEARLY two weeks after the Justice and Development (AK) party swept to victory in a general election, millions of Turks who voted for it discovered who

their prime minister was to be: Abdullah Gul, a cheery, soft-spoken former banker, who is the number two in the Islamic-tinged party, which he helped found last year.

Gul under the watchful gaze of Ataturk

Turkey's western allies and creditors are pleased. So, it seems, are the country's industrial elite and secular-minded generals. Mr Gul immediately affirmed that two of his main goals are to maintain Turkey's strategic partnership with the United States and to put his country firmly on the path towards joining the European Union.

Born into a humble family in the conservative

Anatolian province of Kayseri, Mr Gul, 52, spent a chunk of his career in academia and as an economist at the Islamic Development Bank in Jeddah, Saudi Arabia, before falling under the spell of Necmettin Erbakan, the erratic founder of Turkey's Islamist movement. But he soon became one of Mr Erbakan's fiercest critics during the latter's brief stint as Turkey's first Islamic prime minister, which ended when the generals shoved him out after a year, in 1997, on the questionable grounds that he was seeking to steer the country towards Sharia rule. Joined by some 50 like-minded moderates, Mr Gul broke away from Mr Erbakan's lot to form AK, as the party is invariably called, its initials meaning “white” or “clean” in Turkish. Mr Gul is hugely popular among the party's rank and file. Western diplomats like him too.

But Turkey's real boss is Recep Tayyip Erdogan, the AK leader, who was barred from becoming prime minister because of a previous conviction for allegedly seeking to stir up religious hatred by reciting a nationalist poem in public. Since the AK dominates parliament, a law is likely to be passed in the coming months to let Mr Erdogan officially take charge—and

take over Mr Gul's job as prime minister.

To underline this, Mr Erdogan unveiled his government's “urgent action plan” before a big crowd of journalists, just as Mr Gul was being quietly anointed prime minister by Ahmet Necdet Sezer, Turkey's president. Mr Erdogan has already fulfilled his campaign promise to cut Turkey's bloated cabinet from 36 to 25 ministers.

Not all those appointed to the new government won universal approval. Indeed, the keenly pro-secular President Sezer refused to accept one of them, Besir Atalay, as education minister. Mr Atalay is a former university dean who had apparently been sacked for recruiting Islamic-minded teachers to help him campaign for the lifting of bans on Islamic-style headgear (in particular, the headscarf for women) on campus. As a result of Mr Sezer's intervention, Mr Atalay has been shifted to another ministerial post—and his original nomination has been seized on by some pro-secularists as evidence that Mr Erdogan has not changed his Islamist spots after all.

But most of the new cabinet are pro-westerners. They include Ali Babacan, a chirpy American-trained economist of 35 who will oversee the IMF's programme of reforms that is already two years old. Then there is Yasar Yakis, a former diplomat who is the new foreign minister. An enthusiast for Arabic language and culture, Mr Yakis has long been a *bête noire* in the eyes of the Turkish foreign ministry's snootier pro-Europeans, sometimes known as the "*mon cher*" brigade. Unlike many of them, however, Mr Yakis seems ready to make concessions over Cyprus in order to break the 28-year-old stalemate over the island between its Greeks and Turks.

So, it appears, is Mr Erdogan. He has been visiting leaders across the EU. His first stop was Athens, where he declared a new UN plan to reunite the island as "an acceptable basis for negotiation", although he described proposals to reduce the size of the territory controlled by Turkish Cypriots as "abominable". He also suggested, unrealistically, that, at its grand summit in Copenhagen next month, the EU should give Turkey a firm date for starting negotiations over entry in the Union as part of a deal to clinch a settlement in Cyprus.

Perhaps even more telling was a declaration by General Hilmi Ozkok, the chief of Turkey's general staff, that Cyprus was a matter for the politicians. That marks a dramatic shift from his predecessors' hawkish tirades about not giving up one of Turkey's most valuable strategic assets.

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The conflict in Chechnya

A chance of peace?

Nov 21st 2002 | SPUTNIK CAMP, INGUSHETIA
From The Economist print edition

In the aftermath of the Moscow hostage crisis, Chechnya may yet change

AP

Get article background

THEY live in neat rows of boxy green tents, in makeshift rooms partitioned with fibreboard in

abandoned barns, in the houses of local families paid to take them in; they sit and wait out their days or look for work nearby or make the perilous journey back and forth to their old homes. But among all those who have fled the fighting in Chechnya, the refrain is the same: “We just want to live like normal people,” says Azamat, a 21-year-old at the Sputnik camp, home to over 6,000 people, near Ingushetia's border with Chechnya.

Grim gateway to a better world?

At the height of Russia's second campaign against separatist rebels in Chechnya, which it began in 1999, there were 230,000 Chechen

refugees (or “internally displaced persons”, since they are inside Russia) in Ingushetia. Now there are 110,000—a ninth or a tenth of the Chechen population, depending on whether you believe aid agencies' estimates or the possibly inflated results of a recent census. Some have returned to Chechnya only to go into camps there. Others have ventured back to Grozny, the capital, where life struggles to regain some normality despite sporadic fighting and a military curfew.

Aerobics and exile

Though cramped, living conditions are not so bad. There are electric lights and roaring gas stoves, library tents and shop tents and school tents and aerobics tents. Groups of children with UNICEF's support travel to Moscow or even abroad to take part in competitions or perform concerts. But families are fragmented, the future unknown. Life is in suspended animation.

Aid workers have been bracing for a new influx, fearing a wave of repression after

Chechen rebels took a Moscow theatre and its audience hostage last month. There are a few ominous signs: small army bases have been dug in right at the edge of the camps and some residents report harassment from the soldiers. In Moscow the police have been cracking down, sometimes brutally, on Chechens and other people from the Caucasus. But refugees and foreign aid workers who have been to Chechnya recently say it has not much changed. The army seems to be obeying President Vladimir Putin's instructions to exercise restraint.

In fact, Mr Putin seems to be using the hostage crisis to get more direct control in Chechnya—but not through force. It allowed him to discredit Aslan Maskhadov, Chechnya's last elected president and now its rebel leader, as a partner for peace talks on the grounds that he might have had a part in the theatre attack. (Russia is trying to extradite Akhmad Zakaev, Mr Maskhadov's foreign envoy, from Denmark, where he was arrested after a conference.) Mr Putin has also reshuffled most of the government officials responsible for Chechnya, except for Akhmad Kadyrov, the head of the Chechen administration in Grozny. This, says

Nikolai Petrov, an analyst in Moscow, is designed to give Moscow more control over the region's finances, clipping Mr Kadyrov's wings.

He will be needed, however, to administer the next phase, which Mr Putin announced shortly after the Moscow hostage affair. In March or April next year there will be a referendum to adopt a constitution that will reiterate that Chechnya is part of Russia, formally negating its self-declared independence a decade ago. A few months later there will be a presidential election. Mr Kadyrov is a likely contender, but his own credibility is low both in Moscow and in Chechnya. Someone who is loyal to Moscow but has popular support too would doubtless do well. That might be a Moscow Chechen or, more likely, a recognised local politician.

The referendum and maybe the election, too, could be rigged; Russia tightly controls outside scrutiny of Chechnya, and public opinion is unknown. “The magic of the place is that we can't quantify anything,” says an aid worker. But it may not be necessary. If the army's brutal excesses against civilians can be curbed, if the rebels do not grow stronger, and above

all if Mr Putin's project promises some kind of return to normality, the Chechens—at least those who have known the refugee's life—may take what is on offer. And that would allow Mr Putin, shortly before his own re-election bid, to rescue some shreds of success from a policy towards Chechnya that so far has failed.

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Charlemagne

A change of generation

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Older Eurocrats in Brussels have often been driven by a post-war idealism that may now be fading

CORRADO PIRZIO-BIROLI, head of staff for Franz Fischler, the European Union's agriculture commissioner, will retire within the next few years. His departure will mark another break with the generation for whom “building Europe” was a direct, personal response to the horrors of the second world war.

The story of the Pirzio-Biroli family is told in a

book (“A Mother's War”) by Fey von Hassell, daughter of Ulrich von Hassell, a German ambassador to Italy in the 1930s. She settled in Italy and married Detalmo Pirzio-Biroli, the scion of a north Italian family. Her first son, Corrado, was born in late 1940; a second, Roberto, a bit over a year later. As the war went on, both her husband and her father became deeply involved in resistance movements in Germany and Italy: Detalmo as a partisan, Ulrich von Hassell as part of the circle of anti-Nazis who tried to assassinate Hitler in 1944. When Hitler survived the bomb plot, von Hassell was arrested and executed.

Though his daughter knew nothing of the plot, she too was arrested at her husband's country house at Brazza, near Venice, and was moved to Austria with her sons, then aged three and two. There the boys were literally wrenched away from her and sent to an orphanage run by the SS. She was not told where they had been taken, and over the next eight months, with other relatives of the bomb plotters, she was moved around various prisons and concentration camps in Austria, Poland and Germany. She eventually ended up in Dachau, with a group of prominent political prisoners,

among them Léon Blum, a pre-war socialist prime minister of France, the industrialist Fritz Thyssen, and Kurt von Schuschnigg, chancellor of Austria at the time (1938) when Hitler seized that country. The group narrowly survived the remainder of the war. Fey von Hassell was released and reunited with her husband. But her children had disappeared. After some months, the two boys were tracked down to a formerly SS-run children's hostel in Austria. Their names had been changed and they were about to be adopted by a local family.

That history seems to have left Corrado Pirzio-Biroli with a strong belief in fate. He points out that his boss, Mr Fischler, was born in 1946 a couple of kilometres away from the orphanage where the Pirzio-Biroli boys were held. And few of Mr Pirzio-Biroli's jobs at the EU have given him as much satisfaction as returning to Austria in the 1990s as the EU's ambassador and arguing successfully for Austrians to vote in favour of joining.

The belief that European political integration was the only possible response to the second

world war had already struck Fey von Hassell, in 1943. She wrote to her husband: “What a war! What destruction! At least if afterward there would be ‘brotherhood' among all European countries then it would nearly be worthwhile.” Similar beliefs motivated many of the founding fathers of the EU. As a young man, Mr Pirzio-Biroli “marched for Europe” with one of them, Altiero Spinelli, in Rome.

Some may find it ironic that Mr Pirzio-Biroli is ending his career as an administrator of the EU's common agricultural policy, a baroque system of subsidies and red tape that seems to have little to do with idealistic dreams of European brotherhood. Yet the origins of the CAP are actually deeply rooted in the 1950s reaction to the war, when “self-sufficiency” in food production was still an important goal, and it seemed entirely reasonable that Germany should be compelled to subsidise French agriculture, more or less as a form of war reparation. These days it is the commission which is trying to reform and scale back the CAP,and the national governments of the EU member countries that are largely blocking reform.

Idealism changes sides

Yet the problem remains. A generation is growing up for whom “Europe” often means not peace, but bureaucracy and technocracy. For many of today's young, the old slogans no longer work. Indeed, when Germany's then chancellor, Helmut Kohl, seven years ago said that European integration was a matter of “war and peace”, his words were widely misinterpreted in Britain as a threat, and seemed embarrassingly overblown to many others. Although European leaders often like to say that they put their faith in young people to carry forward the great political project, youthful idealism does not always translate into support for the EU. There is indeed a rather dismal group called the “Young European Federalists” who issue statements and turn up and sing songs at summits. But it is difficult not to feel that the real young idealists are the ones demonstrating against the EU from the other side of the barbed-wire barricades.

European federalists are searching for a new

argument with which to energise the young. Building a superpower to rival America is at times touted as a new rationale to replace “war and peace”. Mr Pirzio-Biroli is not convinced. He believes that European identity for today's young is a matter of cultural interchange, not political transformation. Young people are now instinctive rather than idealistic Europeans, at ease with the idea of crossing frontiers, working or studying in other European countries, but not preoccupied by any need to “build Europe”.

But Mr Pirzio-Biroli himself is still keeping a watchful eye on the politics of Europe. He has just courted trouble by writing a letter to the *Financial Times*, attacking the EU's own policy of eventually admitting Turkey as a member. A younger colleague grumbles that such an action is typical of the static view of Europe held by an older generation of commission officials, and of their willingness to push their own agenda regardless of what mere politicians think. Mr Pirzio-Biroli responds as might Valéry Giscard d'Estaing, the former French president now chairing the EU's constitutional convention, who recently set this cat among the pigeons: that inviting Turkey to

join the EU is “the kind of decision that can only be taken by people with no sense of European history”.

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Business and government

Whinge gripe bluster

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British businesses' complaints about the government are only partly justified

TO HEAR Britain's corporate chieftains complain, one would never think that Britain had the most successful economy in the European Union, or the lowest unemployment in the G8 group of big industrialised countries, or a high ranking in the various world competitiveness tables. The love affair between business and the Labour government has soured, while the squawks of protest have

become louder and sharper.

The shift is biggest at the main employers' organisation, the Confederation of British Industry (CBI), which starts its annual conference this week. The CBI's head, Digby Jones, says the country's competitive advantage is in “serious jeopardy”. After he told his members last month that Britain was “sleepwalking to decline”, an article in the *Times* even described him as the true leader of the opposition.

The first slice of business beef against the government is burdensome new rules, mostly from Brussels. There have been 15 new pieces of employment legislation in the past three years, with more in the pipeline. Planned European rules giving temporary workers similar privileges to other staff, for example, could cost 500,000 jobs, Mr Jones says.

Some of the criticism is justified. Small businesses especially find it hard to cope not just with new rules (for example on maternity leave) but also with the erratic way in which they are implemented. There are plenty of

examples of heavy-handed regulation which have cost jobs and destroyed wealth—new standards for old people's homes, which were set far too high, and then withdrawn, are a prime example. But the government is actually a rather vigorous defender of deregulation and labour market flexibility in Brussels. And although the government does not have the Tories' business connections, it cultivates the corporate lobby assiduously, and two junior ministers dealing with business affairs, Lord Sainsbury and Brian Wilson, have run their own companies (respectively, a supermarket chain and a local newspaper).

The other big complaint is the growing tax burden on business. This is easier to quantify. Companies now contribute 28% of the total tax take. The CBI says that on current plans, the take will be up by a stonking £47 billion ($75 billion) between 1996-97, when Labour took office, and 2004-05. The Treasury points out that that figure, which made good headlines, adds up the annual increases for each of eight years, rather than representing the difference between the beginning and end of the period. Still, business tax revenues are rising at around 6% a year, which hurts.

Some of the cash is coming from unexpected quarters. Employers' insurance costs have shot up, as insurers have been squeezed by the stockmarket slump and by spiralling claims. The 5% tax on insurance premiums is delivering a nice windfall to the Treasury.

In presentational terms, this may have been a success. The government has kept, on paper at least, its pledge not to raise income and corporation tax. But raising national insurance contributions for employers and employees, for instance, is a disguised payroll tax—in effect a tax on jobs. The CBI says it would prefer a hike in corporation tax, which at least affects only profitable businesses.

Still, things could be a lot worse. For a start, the single biggest boon to business is the government's macro-economic record. Even Mr Jones describes it as “superb”. Britain has low inflation, low interest rates and low unemployment. “No government, of any colour, has delivered that since the second world war,” he says. The biggest headache, by contrast, is the strength of the pound against the euro. That dwarfs any squeeze on

profitability from higher taxes or regulation.

The most uncomfortable question of all for Britain's bosses is why British-owned business performs so poorly compared with foreign-run companies based in Britain. “We have a less skilled workforce, using less good technology, under less good management,” says Patricia Hewitt, the industry minister. If British business needs light regulation and labour market flexibility in order to make up for its lack of real competitiveness, it might be better off under a more bracing regime.

Overall, British business still gets off lightly compared with other European countries—and in the government's view, even scores over America on some fronts. “Litigation costs in America are worse than the cost of regulation here,” argues Ms Hewitt. That may be true, though it's hard to quantify; either way, it's not likely to placate Britain's angry businessmen.

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Homeland security

Bangs away

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Britain has experience of terrorism. That's some help now, but not a lot

FIGHTING al-Qaeda means more than sending crack troops to faraway places. A flurry of terror warnings, chilling talk of a gas attack on the Tube and three terror arrests brought that message home in Britain this week. Australia and France have already found that ties with America have a cost; sooner or later, Britain must be next.

Britain has a start thanks to three decades of Irish terrorism. That has sharpened co-

operation between police and the intelligence services, improved security in public buildings, and heightened public sensitivity to suspicious-looking packages. Since the IRA killed one of Margaret Thatcher's closest friends in the House of Commons car park in 1979, security there has been efficient. In Washington, newly-energised guards now flash mirrors under cars to check for bombs. Vulnerable spots in Britain such as power stations have long had sturdy perimeter fences and plenty of guards—basics that Americans have been scrambling to put in place. Closed-circuit security cameras are probably thicker on the ground in Britain than in any other country. Richard Fenning of Control Risks, a security consultancy, says that Britain does better than America in keeping track of explosives.

But the IRA was restrained by the terrorists' need to keep American sentiment on their side; it steered away from mass killings or hijacks. So there are plenty of holes in airport security: robbers have twice made off with cash from restricted areas at Heathrow this year and a nutcase this week found no difficulty in smashing up a plane at Stansted. It is still quite easy to bring, say, a parcel into a

British theatre or museum. In Washington, guards at big museums search every bag.

Despite frenzied talk of a bioterrorist attack in the London Underground or suchlike, little seems to have been done about it. The past week's arrests show that the intelligence services and police are primed for pre-emption, but the authorities' ability to cope with the aftermath of an attack looks less good. A report from the National Audit Office has showed big gaps in the National Health Service's readiness—in London alone, one-third of casualty departments are ill-prepared for handling a radiological (“dirty”) bomb, as are many ambulances.

Some sensible steps are planned but yet to happen. There are plans to put 6,000 army reservists on standby in case of attack, but the full quota will probably not be available before April next year. Key health workers have yet to receive smallpox jabs. The idea is to inoculate them, and stockpile vaccine to protect the rest of the population. America has already acquired enough to vaccinate every American; Britain won't say whether it has or not.

Grasping at a hot issue, the beleaguered Tories are suddenly insisting that they want a new cabinet minister for homeland security, modelled on what America has, to pull together government and intelligence services. They say David Blunkett, the home secretary, is too busy to handle this too. Mr Blunkett says a new post would simply create more bureaucracy.

In fact, officialdom is evolving in this direction. In August 2001, after the government had botched both the fuel crisis and foot-and-mouth, a Civil Contingencies Secretariat, with a 100-person staff, was created within the Cabinet Office, to watch out and plan for threats. It is a secretive outfit, saying only that it has drafted evacuation plans with local authorities. Given the huge difficulty of evacuating London, the most obvious target, it may be wise to keep its plans away from public scrutiny.

More surprising than gaps in government preparations is slackness in the private sector. In August the Financial Services Authority (FSA) estimated that 30-40% of firms in the

City, mostly small or medium-sized ones, had no evacuation plans in place. The FSA itself has created a “bunker” within walking distance of its Canary Wharf headquarters, where it has links to big banks; it claims it can be up and running there within an hour of an attack.

Overall, given that a few lorry drivers were able practically to shut down the country in the fuel price protests of 2000, the nation's ability to withstand disruption looks flimsy—especially if, say, a firemen's strike coincides with terrorism.

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Films

Retake

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American money plus British talent equals success. Why bother the taxpayer?

WHO said the Hollywood juggernaut would Americanise the world? Anyone going to the cinema between now and Christmas will be assailed by films based on books by British authors, steeped in British culture, with casts that are partly or wholly British.

The Harry Potter series (Potter II hit the screens earlier this month) has successfully romanticised that quintessentially British institution, a boarding school. The new James Bond film, “Die Another Day”, continues an unasked-for image-building campaign for Britain's MI6 spy service, giving it a wildly exaggerated reputation for derring-do and whizzy gadgetry. And the second part of the “Lord of the Rings” trilogy, “The Two Towers”, cements Britain's world leadership in another fantasy world, of cod-medieval magical mythology.

Not that this is a triumph for British film. Most of the behind-the-scenes talent, and the money, is American. But it does raise the question of why the government subsidises the film industry, since the only possible justification is to disseminate British culture,

and Hollywood is doing that free of charge.

After a (largely wasted) £200m splurge in recent years, the taxpayer and lottery participants now support British film-makers to the tune of around £26m a year. That is far too little to make a big film, and has brought only patchy success with arty productions. Talented British actors, cameramen, directors etc wanting to break into Hollywood have as good a chance as any of getting work and money, as the current triptych shows. For the less talented ones, a dripfeed of public subsidy is unlikely to make a difference, and may keep them from doing something more sensible.

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Sex offences

Blunkett's blunder

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From The Economist print edition

Panic over sex crimes is not a sound basis on which to reform the law

“ARCHAIC, incoherent, and discriminatory.” Few would dispute David Blunkett's description of the current Victorian laws on sex offences. The home secretary's proposals to update the law received cross-party backing in the Commons this week. Yet his determination to shift the balance of the system in favour of the victim risks creating new injustices.

Take, for example the proposal that a new offence of “sexual grooming” should be created

with a maximum penalty of five years imprisonment for anyone “who undertakes a course of conduct with a child under 16 leading to a meeting where the adult intends to engage in sexual activity”. This language is so vague that it is hard to see how parliamentary draughtsmen, let alone juries, can make any sense of it. Internet grooming may be a problem but the solution proposed could make offering an ice cream to the child next door a criminal offence, and threatens what remains of neighbourly solidarity. “If you make people afraid that talking to your neighbour's children could be seen as an offence, you actually make those children less safe,” points out Shami Chakrabarti of Liberty, a civil rights organisation.

Another suggestion is that anyone having sex with a prostitute under the age of 18 should be liable to a jail sentence of up to seven years. The proposal makes no mention of knowledge of age as one of the basic tests for the offence. Yet, without such proof, there would be a risk of serious injustice. Men who use prostitutes can fairly claim that when they strike a bargain with a girl, usually under dim streetlights, they haven't a clue as to her age.

The law on rape certainly needs reform. Since 1985 conviction rates for rape reported to the police have fallen by more than two-thirds from 24% to 7%. Juries are reluctant to convict “date” rapists, particularly those who have had a previous sexual relationship with their victim. Rape cases almost always turn on consent; and when only two people were in the room, that is hard for outsiders to judge.

At present, the defendant can plead “honest belief” that the woman consented, even if she says she didn't. The government proposes that, in future, he will have to be able to prove that this belief was “reasonable”. But this will create as many problems as it solves. If, for instance, a woman is drunk but not comatose, can she be said to be in a position to give consent? The test of reasonableness was explicitly rejected by the Home Office's own review of sex offences. Martin Bowley, a member of the review team, said the new approach was “a classic case of political spinning” which would please feminists but have little effect on juries.

A less ideological view of date rape might

recommend a reform which would almost certainly lead to more convictions. In Britain, there is only one offence of rape, which carries a minimum penalty of five years in jail. That discourages juries from convicting. Many countries, including Canada, Australia and America, distinguish date rape from stranger rape with several offences of differing gravity and differing penalties. They have conviction rates twice to four times that in Britain.

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Public debates

A piece of their minds

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Seriousness is booming

"AN INORDINATE number of ladies and other visitors occupied the body of the hall to the exclusion of fellows, many of whom, arriving at the hour appointed for the opening of the doors, found the best places already taken," complained a member of the Royal Geographical Society. Admittedly, that was in 1877, at the height of explorer chic. But the RGS is packed once more, thanks to a revival of interest in serious lectures and debates.

Five years ago, the RGS held 60 such events.

The figure is now approaching 200, not counting externally organised ones that use the RGS as a venue. “Talks and debates are selling out months in advance,” says the head of programmes, Alison Glazebrook. These days it's not just explorers who pull in the big crowds, but politicians, businessmen, journalists and even economists.

There's a similar story outside London. The RGS has opened eight regional branches in the past 11 years. It recently started a regional-theatres programme, under which big-name speakers repeat their London talks in provincial theatres—twice in the same day, sometimes, in order to meet demand. According to Peter Florence, who organises the Hay Festival, a high-profile annual event which has become increasingly eclectic and less strictly literary over the years, ticket sales leapt from 55,000 in 2001 to 70,500 in 2002. Of the 28,000 people on Mr Florence's core mailing list, just 3,000 or so live in London, and 2,400 in the south-east.

Other outfits, such as the Royal Society of Arts and the Institute of Contemporary Arts, report

similarly high levels of interest in political debate. Foreign policy is especially hot at the moment. “People's appetite for topical debate seems insatiable,” says Jeremy O'Grady, co-founder, with John Gordon, of Intelligence Squared, a new debating forum. The first couple of debates on the Intelligence Squared card, on fox-hunting and Iraq, drew around 900 punters between them. This week's debate, on the euro, was another near-sellout, despite the hefty £20 ticket price. *The Economist* has also been running debates (packed, naturally) at various serious-minded venues for several years.

Organisers agree that part of the appeal of any public debate has to do with the frisson that comes from getting up close and personal with famous figures, and maybe giving them a piece of your mind. But an equally important factor, they say, is the public's increasing dissatisfaction with soundbite culture. “Perhaps what we're seeing now is a growing recognition that there's no substitute for informed debate, and that if, as seems to be the prevailing view, politicians cannot be separate from their party view, the public must decide the agenda for themselves,” says Marc Whitmore of the

English Speaking Union.

Tony Benn, a septuagenarian former Labour MP and tireless debater, seconds that motion. The popularity of public debates, he says, is easy enough to understand. “People welcome the opportunity to hear an argument at length, not just a couple of minutes of the party line before the speaker gets bullied and sent off.” Hear, hear!

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Public service reform

Old uniforms

Nov 21st 2002
From The Economist print edition

Even the police and prison officers have changed more than the firemen

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Enemies of change

REFORMING public services is never easy. But it is possible. Compare, for example, the inroads made into the old ways of running the prison and police services, compared with the neanderthal world of the fire service. All three used to have a lot in common. Near-untouchable status stemming from public sympathy for their bravery and role in keeping society safe, for example, as well as the consequences: rigid shift patterns, grotesque levels of sick pay and early retirement, batty

working practices, dogged resistance to outside involvement, especially in their trade union leadership, and a “canteen culture” of cynical, resentful intransigence.

Life in police stations has changed a bit. Working time is more sensibly managed. There are fewer night shifts than day shifts, for example (it used to be the same). Civilian support staff, almost non-existent 30 years ago, now make up a third of the police service. They do specialist jobs such as taking fingerprints, running control rooms and handling paperwork. Policemen can be sacked for being incompetent. In the past that was possible only for corruption, violence or gross negligence.

A baroque system of allowances (a special payment for handling decomposed bodies, for example) is being phased out. Although police rotas are still fixed a year in advance, it is much easier now for managers to jiggle them at short notice.

The fire service, by contrast, offers no such flexibility. The shift pattern is archaic and

cushy: two days, two nights, and then four full days off. Staffing is the same at night as during the day, even though there are far fewer fires. There are too many fire stations, and in the wrong places: chiefly in city centres, when they should have followed the population shift to the suburbs. Firemen have steadfastly refused to learn basic first aid, claiming that this is a job for the ambulance service. That costs lives and limbs every year.

Prison officers have not reformed nearly as fast as the police. But even here changes are under way. One reason is the growth of private prisons, which on the whole have managed to treat prisoners better than the state-run ones. That gives a useful competitive spur. Prison officers no longer resist all reform on principle.

There is plenty that still needs to change with the police—fixing rotas a year in advance, for instance, is silly. There is far too much bogus sick pay and pretend early retirement, as well as dreadfully inefficient paperwork. But what has been achieved so far holds some lessons for the fire service. First, banning essential services from striking allows managers to bring

in changes that might otherwise have been resisted. Second, there is plenty of room for flexibility and outside involvement. Not all fire engines need to be huge and ultra-modern; not every call-out needs the same full-scale response. Volunteer and part-time firefighters could do more—just as special constables do for the police force. No public service, even one with a claim to occasional heroism, has a right to the fossilisation of its privileges.

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Public finances

Deteriorating fast

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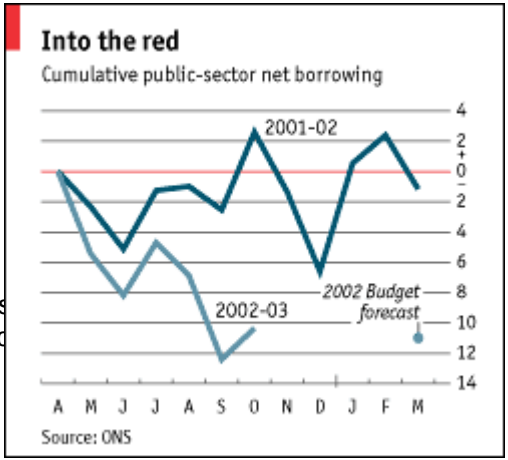
The short-term deficit looks manageable. The longer term is another matter

DURING his first years as chancellor of the exchequer, Gordon Brown was both prudent

and lucky. Year after year, tax revenues exceeded the Treasury's expectatic Mr Brown was then



able to hand back some of the surpluses, generally through higher spending, and retain the rest for a rainy day. But more recently, the chancellor jilted his patron saint of prudence by embarking on a spending spree partially financed by budget deficits. And now as he puts the finishing touches to his pre-budget report, due on November 27th, his good fortune is waning.

Seven months into the current financial year, the government has already chalked up a deficit of £10 billion, only £1 billion short of Mr

Brown's forecast in the April budget for the whole year. The shortfall is in lower revenues rather than higher spending, since faster than planned growth in current expenditure looks set to be offset by lower than expected increases in investment. In the budget, the Treasury forecast a rise of 4% in receipts in 2002-03; so far they have risen by just 1% over the same period in 2001-02. The main villain of the piece is corporation tax receipts, which are 14% lower than in April to October 2001; the Treasury expected them to grow by 2% over the full year.

The public finances have been hit in the first place by slower growth. The economy is now forecast to grow by around 1.5% this year rather than the range of 2-2.5% predicted in the budget. However, this in itself should raise the deficit this year by only about £3 billion. A more serious blow is that the economic growth that has occurred is generating less tax revenue than the Treasury expected. Lower corporate profits and a particularly tight squeeze on the earnings of top-rate income-tax payers are the main reasons.

As a result, independent forecasts are now predicting some chunky deficits for this year and next. For example, the Confederation of British Industry is forecasting a deficit of £18 billion this year rising to £24 billion in 2003-04, much higher than the Treasury's forecasts of £11 billion and £13 billion respectively.

Mr Brown should be able to ride out even these big deficits and meet his two fiscal rules. One is that net public debt should be held at a sustainable level, interpreted as below 40% of GDP. Since debt is only 30% of GDP, this will not keep the chancellor awake at night. The other is the “golden rule”—that over the economic cycle the government only borrows to invest, not to finance current spending. John Hawksworth, economist at PWC, an accountancy firm, thinks that allowing for the cycle, the chancellor can just meet this rule in 2003-04 even with a £24 billion deficit.

Farther ahead, however, trouble is looming. Mr Hawksworth envisages a structural shortfall in the public finances of around £10 billion by 2006. Economists at the National Institute of Economic and Social Research are forecasting

one of £20 billion or nearly 2% of GDP by then. If they are right, Mr Brown may rue the day he tired of faithful prudence and trusted instead in fickle fortune.

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Construction industry

Sorry mate, too busy

Nov 21st 2002 | GLASGOW
From The Economist print edition

Why you can't get a plumber

FOR those who draw comfort from the notion that everything in daily life is worse than it used to

be, there is good news. Plumbers really are harder to come by and costlier than they once were. Regrettably however, the declining morals of the British working man may not be to blame. A construction boom and government education policy are likelier culprits.

Glossing over the industry's image

After a slump in construction in the early 1990s, which reduced the workforce from 1.8m in 1990 to 1.4m in 1996, the industry has recovered and the workforce has grown by about 100,000. Steady growth has turned to

boom, and in 2001 construction output grew by 3.5%, faster than the economy generally for the first time since 1989. The resulting labour shortages have been pushing up pay rates, particularly in south-east and south-west England. According to John Clarkson of Clarkson Builders, a firm in south London, in 2000, a plumber cost £120 a day and a bricklayer £100; this year, a plumber costs £230, and a bricklayer £180.

This problem is likely to get worse. Allan Wilén, economics director of the Construction Products Association, says that the industry is likely to grow by about 4.5% this year and about 4% next. Even at a lower growth rate of 2.6%, the Construction Industry Training Board (CITB) reckons that the industry would need to recruit 76,000 people a year, rather more than the 45,000 trainees it currently gets.

Why, when the pay is so good, is it so hard to recruit people? “The industry has not had a particularly good image,” admits Suzannah Nichol, chief executive of the National Specialist Contractors Council. Quite apart

from jokes about builders with jeans halfway down their bums, stories of cowboy builders and poor safety records on construction sites discourage the self-respecting young.

Another problem is the government's egalitarian enthusiasm to send more people to university. Andy Watts, chief executive of the Institute of Plumbing, reckons that Tony Blair's target of getting 50% of 18-30-year-olds into university by 2010 is a big mistake. “It sends all the wrong signals to young people who are not that gifted,” he says.

In Scotland, where more people go to university than in England, there is already evidence that workforce education levels are out of kilter with economic needs. A skills survey by Scottish Enterprise, an economic development agency, found that there is a rough balance between the number of graduates and of jobs available, that there are more people with a good secondary education than white-collar jobs for them, and not enough people with low qualifications for the unskilled jobs available. Big efforts are now being made by Glasgow schools to steer more

middle-grade pupils into training for such jobs as carpentry, since the city expects house-building to boom in the next few years.

South of the border, the government is starting to boost such schooling, by introducing vocational A-levels and putting more money into further education colleges. The CITB is trying to change the construction industry's image by recruiting in schools and through magazines targeted at fashionable young things, such as *Loaded* and *Cosmopolitan*. The ads suggest that if you want to be your own boss, have plenty of money and create something real, then building might be a cool job. It seems to be paying off: the CITB says that applications for apprenticeships are 30% up this year, and registrations for plumbing courses are up by 50%.

Even so, more carpenters and plumbers will not emerge for some years yet: the way the training works in Britain, it takes four years for an apprentice to qualify as a plumber. This is a big headache all round. The government's spending splurge on new hospitals and schools means that the industry expects public sector

construction output to rise by more than 8% this year and next, and by 6% in 2004 compared with an average growth of only 1.2% in the last three years. Labour shortages mean not only that the cost of these projects will be more than forecast, but also that, as craftsmen are sucked into public work, it will be even harder to get that plumber for some time to come.

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University funding

A degree of dissent

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The battle-lines over university fees have been drawn

THAT universities need more money is no longer controversial. How to get it to them is. The eminently sensible idea that students should pay for most of their university education themselves, which Tony Blair and his allies have been floating this week, is causing divisions within the government, and an unusual alliance between middle England and Labour's left.

The idea of charges for university education

(euphemistically known as top-up fees) strikes fear into the hearts of parents neither poor enough to benefit from state hand-outs nor rich enough not to feel the pinch of high tuition fees. The *Daily Mail*, voice of the middle classes, which does not normally favour tax-funding, has taken up the standard against top-up fees. Several influential members of Mr Blair's cabinet, and a good many Labour MPs, take the same view, albeit for different reasons. They worry that introducing top-up fees would scare off potential students from poor families.

In its last manifesto, Labour promised not to introduce top-up fees. The prime minister is said to be a recent convert, but a long-promised review of higher education has been repeatedly postponed. However, it is becoming increasingly clear that the nation is being softened up for top-up fees. This week, Charles Clarke, the education secretary, and Margaret Hodge, the minister for higher education, have been stressing the financial value of a university education and questioning the morality of forcing those without a degree to pay for the education of high-earners with one. This points towards fees combined with an

expanded loans system, or a graduate tax, whereby students would take out a loan and repay it if and when they got a reasonably well-paid job.

Opponents are making their position equally clearly felt. Clare Short, the international-development secretary, and Frank Dobson, a former transport minister, have denounced top-up fees, though Ms Short would apparently support a system that included a graduate tax; and more than 106 MPs, 87 of them Labour, have signed a motion opposing fees. Most importantly, the chancellor, Gordon Brown, is reported to be against them.

It is not just the universities who are in a tight spot now. Mr Blair is too. Whatever solution to the problem of funding higher education he chooses, he will make a lot of people unhappy.

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The meaning of John Prescott

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From The Economist print edition

The deputy prime minister's power says some worrying things about Tony Blair

SO FAR, there are few winners in the fire dispute. The firemen are learning that public admiration for their bravery does not extend to support for a pay claim 20 times the level of inflation combined with working practices that are responsible for many unnecessary deaths. For years, the local authorities who employ them have failed to manage the service in the interests of the public. The government too has failed by not providing proper contingency planning for a strike that has seemed probable

for many months.

But one man seems to be relishing the drama. Step forward, John Prescott. The deputy prime minister's bulky figure is everywhere: one moment gravely issuing statements in the House of Commons, the next speeding off in his Jaguar to preside over “last ditch” meetings between the employers and the unions. No sooner has he appeared on a television chat show than he pops up at a fire station in his Hull constituency for a mug of tea and a friendly exchange of views with the “lads”. Mr Prescott is—not just in his own mind—the man of the moment.

Mr Prescott's resurrection is remarkable. Eighteen months ago, the deputy prime minister, who had once boastfully cast himself in the role of Ernest Bevin to Tony Blair's Clement Attlee, found himself abruptly written out of the plot. A conspicuous failure during the government's first term, he was largely stripped of departmental ministerial responsibility when Labour was re-elected (though he hung on to the perks of office and his grand title). While his failure to get

anything done was not all his fault—even a competent administrator would have struggled to give direction to his unwieldy “super-ministry” enveloping environment, transport and the regions—he was commonly regarded as a bombastic under-achiever.

He was also a bit of an embarrassment. Famously short of fuse, during the election campaign he launched his fists at a protesting farmer who had thrown an egg at him (www.egg-prescott.co.uk commemorates the moment). “Two Jags”, as Mr Prescott had become known thanks to his fondness for ministerial limos, was quickly re-christened “Two Jabs”. With “delivery” the new watch-word, it seemed Mr Blair wanted only able technocrats, such as Stephen Byers (yes, really), in key jobs.

But when Mr Byers was terminated in early summer for being, albeit in other ways, an even greater embarrassment, Mr Blair brought the old warhorse out of semi-retirement by returning to Mr Prescott half of his old empire. For Mr Prescott, this second chance was as sweet as it was surprising. For everyone else,

it was just surprising. Subsequent events have tended to justify the general astonishment.

Among the responsibilities embraced by “The Office of the Deputy Prime Minister” are local government and the fire service. The lamentable state of the government's preparations for withstanding the blackmail of the Fire Brigades Union (FBU) is the direct result of Mr Prescott's gullibility in believing the advice of officials, long-cowed by the FBU, that it would take many months to train soldiers how to use modern fire engines. If he had bothered to question this more energetically, he would have learned that troops, condemned to operating 50-year-old reserve fire engines on strike days, could have been up and running on up-to-date equipment within two to three weeks.

As a former official of the National Union of Seamen and an old striker himself, Mr Prescott's inertia may also owe something to an atavistic respect for the sanctity of the picket line. Alternatively, he may simply have miscalculated, believing that the FBU would eventually drop its opposition to

modernisation, thus leaving the way open to a fudged pay deal. Which is exactly what he now sees as his duty to broker.

To be fair to Mr Prescott, he is fiercely critical of the “naivety” of the FBU's left-wing leadership for the way it has handled its pay claim. But at a time when the chancellor and the prime minister are insisting that any increase for the firemen above 4% must be earned by higher productivity, Mr Prescott has delivered a very different message. The firemen, he says, are an “exceptional case” who deserve a “special offer” of 11% (the figure recommended by the independent Bain commission, but only if working practices are radically overhauled) or even more. Although Mr Prescott pays lip-service to the convention that he is not directly negotiating with the FBU, his vanity persuades him that he alone is capable of finding a resolution. Such is his love of the limelight that he rashly confided to the Hull firemen that he had even instructed Mr Blair not to interfere with his efforts to find a settlement.

Tony's insecurity

The puzzle in all this is why, at a moment of great peril, when everything that the government says it wants to achieve in the form of modernised public services is in jeopardy, Mr Blair should entrust so much to Mr Prescott. The answer lies in Mr Blair's unease about his own relationship with the party he leads. Mr Blair's political success owes much to his own lack of tribalism—many people, wrongly as it happens, suspect that he would be just as happy at the head of a moderate Tory party. Mr Blair believes that Mr Prescott provides a shield against this sort of barb. As long as Big John is around, it is harder for the prime minister's critics to accuse New Labour of betraying time-honoured values. Mr Prescott, the prime minister calculates, can reach parts of the Labour Party that remain forever alien to him and is therefore just the man to take on the firemen's union.

This is understandable, but Mr Prescott's complacency and lack of discipline have already done considerable damage. If Mr Blair is successfully to confront the big beasts of the

public sector, the prime minister may first have to confront demons of his own.

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About sponsc

Viacom and News Corporation

Still rocking

Nov 21st 2002 | BARCELONA AND NEW YORK
From The Economist print edition

The glory days may be over for most media moguls. But Sumner Redstone and Rupert Murdoch are still going strong

HE HAD just completed a whirlwind tour of eight European cities in six days, it was late in the evening, and he is 79 years old. But there he was in the VIP box at the MTV Europe awards last week, perched above the mere rock stars, tapping his toes as white rappers in baggy trousers and pop divas in skimpy leather strutted their stuff. Sumner Redstone may be of an age when his peers are on the golf course, if they are lucky, but the head of Viacom, the world's biggest media giant and parent of MTV, was doing his best to appear to be enjoying it all—and with good reason.

At a time of turmoil in the media business, Viacom and Rupert Murdoch's News Corporation stand out as the least-battered companies. Their rivals have been losing money, bosses or both. Pre-tax profits at Viacom in the nine months to September 2002, by contrast, reached $2.7 billion, over six times the level in the same period of 2001.

After a hefty loss in the year to June 2002, pre-tax profits in the quarter to September were $315m at News Corp. Analysts expect profits at both companies to surge ahead in 2003.

The parallels between the two media moguls do not stop there. Each is a passionate, part-paranoid, monarchical boss of a kingdom he controls. Each built his empire on the back of a small inherited family business: movie theatres in Mr Redstone's case, Australian newspapers in Mr Murdoch's. And each happens to be a septuagenarian with a new, young wife or, in Mr Redstone's case, wife-to-be.

Suggest to Mr Murdoch that there is some significance in their ages and he seems offended. But the question is not entirely facetious. This year, the media industry has toppled a batch of younger upstarts, including Vivendi's Jean-Marie Messier, Bertelsmann's Thomas Middelhoff and AOL Time Warner's Bob Pittman, whose visionary extravagance matched the inflated exuberance of the new-media boom. Messrs Murdoch and Redstone had seen it all before. This tempered their

approach to the boom—and to its aftermath.

Age before beauty

Three factors stand out. First, both media giants—each of which spans film studios, TV networks, cable channels and publishing—shunned the two bits of the media industry that are now dragging their rivals down most: the Internet and the record industry. Good luck played its part, but so too did good judgment.

For Viacom, buying a big record company was never a serious option: MTV has to keep all the music majors sweet, as the swirl of record-company types invited to Barcelona attests. For News Corp, music has never chimed with the businesses Mr Murdoch knows best, such as satellite-TV and newspapers. And, unlike Mr Messier, he was not seduced into a business (music) he did not know by heady talk of digital convergence. As for the Internet, Mr Redstone says that he rejected an approach by AOL six months before the firm ensnared Time Warner, as he did not trust its currency. Mr Murdoch was long berated for failing to “get”

the Internet; he made only a few relatively small ill-judged ventures, though he was probably rescued from doing more by the bursting of the bubble.

A second factor is that, even as both Viacom and News Corp have stuck to what they know best, they have also done it extremely well (unlike, say, Disney). In part, sticking to what they knew has just meant creating good content. Mr Redstone's mantra is “content is king”. Entertainment is a hit-driven business. A handful of successful films or TV shows, sold on into syndication, on to DVD, overseas, and so on can hugely boost profits. Viacom is cashing in, for instance, on the surprise success of “The Osbournes”, a batty TV show produced for MTV, which has sold well worldwide. One cheaply made talent show, “American Idol”, America's top-rated summer series, helped to lift operating profits at News Corp's Fox network by 82% in the third quarter of 2002 over the same period of 2001.

In a showbusiness world of ample egos, though, luring and keeping the talent that supplies such creativity is a tricky affair:

witness Michael Eisner's dismal record of losing top managers at Disney. Messrs Murdoch and Redstone have each assembled a relatively stable collection of tough, well-regarded bosses, from Peter Chernin and Mel Karmazin, seconds-in-command at News Corp and Viacom respectively, to division heads such as Leslie Moonves at Viacom's CBS network or Tony Ball at BSkyB, the British satellite-TV company that Mr Murdoch controls. Both moguls can be prickly and unpredictable, but they give their trusted lieutenants the freedom to get on with their jobs without constant meddling—an urge that Mr Eisner has never been able to suppress.

Nor has either firm remained stuck in its ways. For the third trait they share is an opportunistic knack of replicating a tested formula in new markets—thanks, in many cases, to canny political lobbying. Both are pushing hard abroad, particularly in Asia. Mr Murdoch's shameless courtship of the Chinese government is legendary. Earlier this year, Mr Redstone was at it too, meeting “every important minister”, plus the outgoing president, Jiang Zemin. Before flying to Barcelona, he dropped in on Tony Blair in

London. New legislation will soon allow American firms to buy British broadcasters. Should the price be right, Mr Redstone does not rule out a bid for ITV, Britain's biggest commercial broadcaster.

Mr Murdoch's latest obsession is to replicate the success of BSkyB, which has combined exclusive sports rights with cutting-edge digital technology and now towers over other pay-TV operations in Britain. In Asia, after years of losses, STAR TV is close to profitability. In Italy, Mr Murdoch is merging two pay-TV outfits—one snapped up recently at a bargain price, thanks to Vivendi's financial woes—to create Sky Italia, which he says will become “another BSkyB”. Next comes America: he is husbanding his resources ready to pounce on DirecTV, a satellite-TV operator, probably early next year.

For its part, Viacom is pumping out cable channels, including Nickelodeon, MTV and VH1, globally. In the past 18 months, MTV has launched 18 new channels, such as MTV Romania and MTV Indonesia, each a localised take on the original. MTV channels are now

profitable everywhere bar, for now, Asia. “MTV will be the prime driver of international growth at Viacom in the years to come,” says Mr Redstone.

Neither Viacom nor News Corp is invulnerable. Viacom's Blockbuster film-rental business, for instance, a low-margin activity, is at long-term risk from video-on-demand and digital downloading. News Corp is still losing money on satellite-TV in Latin America and Italy. Investors dislike News Corp's complex corporate structure and accounting. It is having to refresh its audit committee to comply with new corporate-governance rules.

And looming over both firms is the small matter of succession. Each mogul has a strong lieutenant—Mr Chernin and Mr Karmazin—but they are awkwardly placed in firms with a dynastic feel. Each has installed children in his empire. Mr Redstone's daughter and son are Viacom directors, and Mr Murdoch's two sons work at News Corp—though only Mr Murdoch has named one, Lachlan, as an heir.

Yet such troubles pale beside those of other

media giants. As rivals falter, Viacom and News Corp are well placed to take advantage of a depressed industry and cheap assets. Both Messrs Murdoch and Redstone scarcely conceal their excitement at the bargains they might find. Each firm has a relatively healthy balance sheet and strong cashflow. Each also has a culture of financial conservatism: News Corp's came after it narrowly avoided bankruptcy in the early 1990s, Viacom's was instilled by the obsession of its boss, a parsimonious lawyer, with the bottom line. “Every acquisition we make must add value in year one,” says Mr Redstone. Judging by the acts on stage in Barcelona, the entertainment industry is obsessed by youth—but age is not a bad basis for managing it.

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Ethical reporting

Irresponsible

Nov 21st 2002
From The Economist print edition

The dangers of corporate social responsibility

THE “magnificent seven” ride again. But beware, they might bump into the “glass ceiling”, or, worse, fall victim to “carpet-bombing syndrome”. This collection of clichés, laced with breathless examples of consultancy-speak such as “triple bottom line” and “blended value”, are intended to draw attention to a new study of “corporate sustainability” reporting by big firms, published on November 18th. Entitled “Trust Us”, it has been co-written by a consultancy, SustainAbility, which counts such

companies as Ford and Shell among its clients, and the United Nations Environment Programme. A SustainAbility consultant, Oliver Dudok van Heel, preaches that its mission is to make companies behave responsibly, “for the sake of present and future generations.”

Firms are falling over themselves to compete for an ethical Oscar. For the record, this year's magnificent seven—those with the best scores for social policy and environment reports—are the Co-Op Bank, Novo Nordisk, BAA, British Telecom, Rio Tinto, Shell and BP. The glass ceiling is a coded way for the authors to say that these reports have not improved in quality since the first such survey was carried out in 2000. However, since then, the authors chastise, they have gained 45% in volume and now measure, on average, a frightening 86 pages apiece—hence the reference to carpet bombing.

The aim of sustainability reporting—to determine if a firm trades “fairly”, protects the environment and so on—may be relatively new, but the tone of this report is thoroughly Victorian, a sort of schoolmasterly “could do

better". And herein lies a serious concern.

Pervading the report is the sense, increasingly widespread nowadays, that companies are inherently immoral unless they demonstrate that they are the opposite—in effect, guilty until proved innocent. Yet, even allowing for some recent corporate scandals and the odd crooked chief executive, most law-abiding companies do good simply as a by-product of their pursuit of profits—as Adam Smith first proclaimed over 200 years ago. In its rush to sell clients advice on how to buff up their ethical image, SustainAbility glosses over the fact that the likes of Wal-Mart employ thousands of staff worldwide and also deliver goods cheaply to consumers.

Being loudly ethical is, claims Mr van Heel, good business (for his clients, not just his consultancy) because it cheers up investors, workers and customers. Clearly, some big companies are willing to humour him, and neglect to take issue with some of the nonsensical claims made by social activists against them.

Splashing out on a big report may keep activists off a company's back. But although sucking up to politically correct lobbyists might seem a small price to pay to keep them quiet, in reality it can reinforce the feeling that companies have a case to answer—escalating criticism, and perhaps helping to create a climate in which heavy regulation becomes politically acceptable. The danger is that those bosses who believe that these reports are basically harmless, and that the main cost of producing such door-step-sized volumes is only a few trees, may find that it turns out to be much higher.

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Electricity in America

Life after Enron

Nov 21st 2002 | SACRAMENTO AND WASHINGTON, DC
From The Economist print edition

Can the energy traders save themselves?

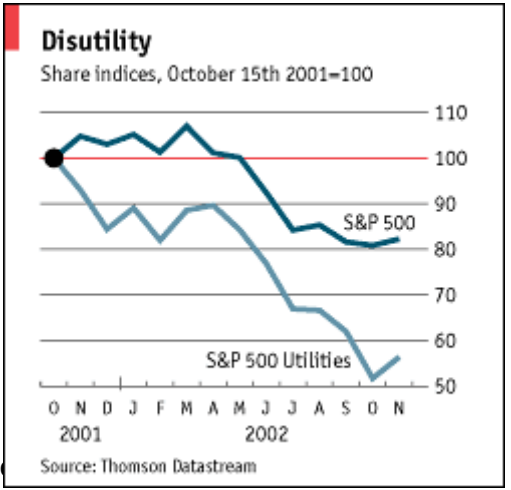
“AFTER the collapse of Enron, the industry has to come together.” So says John Collins, chief risk officer of Constellation Energy, once a rival to the bankrupt Texan firm. Energy traders are known for their bitter rivalries, so why the curious call for co-operation? Simply put, the industry is fighting for its life. According to Jone-Lin Wang of Cambridge Energy Research Associates, a consultancy, America's “power industry is suffering. The impact will be more far-reaching and will last longer than many now expect. What is unfolding in America will

have repercussions for the energy business worldwide."

Enron's demise did not kill energy trading, but the evidence of financial skulduggery and murky accounting uncovered by the Enron post-mortems may yet do the job. In the past few days, for example, the industry's main regulator, the Federal Energy Regulatory Commission (FERC), has accused Williams and AES of colluding to drive prices up during the California power crisis two years ago. And in Sacramento, Californian legislators were told that energy firms submitted false prices to firms such as Dow Jones and Platts that publish energy-price indices.

Such news has started a vicious cycle of downgrades by credit-rating

firms, loss of access to financing and demands for greater collateral. The share prices of once-aggressive energy traders such as Mirant and Dynegy have plunged, as more recently have those of stodgier integrated utilities once thought so safe they were branded “widows and orphans” shares. Some firms are leaving the trading business. Others may go bust. Which is why Mr Collins and other chief risk officers from energy-trading firms are joining forces to try to restore confidence.



Their committee of chief risk officers reported on November 19th, setting out best-practice

standards in corporate governance, credit and risk management, and financial disclosure. Lack of clarity and consistency in how trades are valued and reported have undermined investor confidence at least as much as any hard evidence of wrongdoing. Trading firms now promise much more detailed disclosure of trading portfolios—and, crucially, standardisation of how they value the often-obscure components of those portfolios. The risk officers also want to shift from bilateral contracts to multilateral “netting” agreements cleared on neutral exchanges, as this should require far less collateral to be posted by individual firms.

This is radical stuff, especially by the standards of this industry. Will traders pay any attention to these worthy but voluntary targets set by risk officers? Maybe. The 31 firms behind this week's deal account for about half of the power and gas traded in America. And the threat of heavy regulation hangs over the industry, if it does not clean up its act. Indeed, even if it does, FERC may crack down hard.

Like the credit-rating agencies, which some

observers think are now overzealously downgrading power marketers to atone for their lax treatment in the past, regulators may also overreact to restore their image. FERC was guilty of “a shocking absence of regulatory vigilance”, said a congressional committee investigating California's crisis and Enron's collapse. Last week, the politicians seemed to blame FERC for causing those fiascos through gross negligence. Loretta Lynch, head of California's Public Utility Commission, accuses her federal counterparts, starting under President Bill Clinton, of pursuing an ideologically driven agenda of “deregulation at any cost”.

Surprisingly, FERC does not seem to disagree with its critics. One official responded to the congressional report by saying that “in the past, the agency probably wasn't as quick as it should have been to jump on this stuff”. Nora Brownell, a FERC commissioner appointed by George Bush, goes further: “I won't accuse my predecessors,” she begins, before explaining how more vigilance could have mitigated California's excesses. “We need to be as nimble as the markets. The shaming factor works very well, applied quickly; but the threat

of public punishment must come quickly, not two years after the fact."

FERC recently created a new office of market oversight and investigations, and doubled the number of market "overseers" on staff. More powers and cash have been promised. More action may also flow from several high-profile court cases now under way. In San Francisco, prosecutors issued subpoenas last week to half a dozen energy-trading companies that did business in California. Their request suggests that they are seeking evidence of collusion and price-fixing.

So America's power-trading industry may at last get an active cop on its beat. That should reassure investors, who may return once an economic rebound again raises demand for power and lifts prices. Constellation's Mr Collins is optimistic: "We're an industry in its formative stages; the strong will survive". How many of today's firms will be around for that (eventual) happy day is anybody's guess.

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Electricity in Russia

Playing the system

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From The Economist print edition

More questionable power plays

THEY were once colleagues, but Andrei Illarionov and Anatoly Chubais have since fallen out. Respectively economic adviser to President Vladimir Putin, and boss of Unified Energy System (UES), Russia's electricity monopoly, the two are now at each other's throats over the planned restructuring of the electricity sector.

The plan, in gestation for two-and-a-half years but now bogged down in parliament, is a classic piece of vertical disintegration, keeping

the nationwide grid in state hands but breaking up distribution and generation into bite-sized chunks, creating a competitive market in electricity. The rows, of which the latest broke at a conference in Boston last week, are about how Mr Chubais is preparing for it.

Minority shareholders say Mr Chubais has been pre-emptively selling UES assets cheaply on the sly, despite Mr Putin's decree last year that the company must be broken up “pro rata”—ensuring that anybody with a stake now will have the same stake in its restructured parts. But after several deals reminiscent of the 1990s loans-for-shares privatisation (in which Mr Chubais oversaw the sale of state assets, now worth $25 billion, for some $1.2 billion), repeated delays to the restructuring programme and a lacklustre share price, in September the UES boss announced a freeze on asset sales.

In Boston, UES said that private firms might manage one or two of the ten planned wholesale generating companies. These new “gencos”, insists UES, would get no special rights to the assets they manage, and their

expertise would appeal to future investors. Minority shareholders are suspicious. Alexander Branis, of Moscow-based Prosperity Capital Management, a member of the UES board, thinks the scheme is “a pretext to move assets to other holders”. Other shareholders, led by Hermitage Capital, another Moscow firm, have gathered enough proxy votes to call an extraordinary general meeting. They threaten to have Mr Chubais fired, unless the government reins him in. (A vote to oust him would need government support, as it is the largest shareholder.)

UES needs to attract private investment fast. Without it, there will be widespread blackouts in a few years. But nobody knows the true state of the system, argues Mr Branis. Under Soviet central planning, power-plant managers exaggerated their investment needs. The Soviets were inefficient: relative to economic output, Russia uses up to four times as much electricity as west European countries. Now business is more energy-conscious, demand for power is growing more slowly. Until the market is liberalised, nobody knows what demand will be.

Fears of asset-stripping aside, Mr Illarionov thinks the main weakness in the reform plan is that Mr Chubais may control the national grid, a powerful weapon in a country where vast regions have one supply line. Mr Chubais dismisses Mr Illarionov's attacks as personally motivated. He hopes that the reform bill, which has been held up by some 1,800 amendments, will have a second reading on December 18th.

If it does not, coming elections could delay it until late 2004—giving critics of Mr Chubais plenty of time to undermine him. But if Mr Illarionov has the president's ear, why is the UES boss still in his job? Either Mr Putin likes to watch his subordinates scrapping; or Mr Chubais has too many allies. On that question, even the voluble Mr Illarionov prefers to be silent.

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Boeing

Sonic sinker

Nov 21st 2002 | SEATTLE
From The Economist print edition

Boeing's futuristic fast jet is grounded

Get article background

Boeing's flight of fancy

OFFICIALL no decision has been taken, and Boeing is still

showing airlines pictures of three versions of its high-speed “sonic cruiser”, the futuristic aircraft it unveiled in March 2001. But the sonic cruiser is not going to take off. Boeing may make the formal announcement before the end of the year. By March, it will unveil plans for a more conventional 250-seater jet, to take the place in the middle of the market of both the ageing Boeing 757 and the wide-bodied 767, two workhorses of the world's airlines. Out goes the sonic cruiser. In comes the decidedly less-catchy “super efficient” aircraft, a sort of cut-down Boeing 777.

The soon-to-be-abandoned high-speed aircraft, designed to cruise at just below the speed of sound, was meant to fly 20% faster than conventional jets, with a long range of 13,800 kilometres (8,600 miles). It would thus have been able to chop up to three hours off trans-Pacific flights, and to fly from, say, Los Angeles to Tokyo and back within a day. Its main attraction was speed, for which passengers would have paid a premium. Airlines would also benefit by getting more trips per day.

From the start, sceptics thought the aircraft

was merely a stunt to mask Boeing's withdrawal from the market for super-jumbos. Although many airlines gave the thumbs-up to Airbus's double-decker 550-seater A380, they were unimpressed by Boeing's plans for a drastic upgrading of the venerable 747. So it quickly invented and unveiled the sonic cruiser, which grabbed headlines from Airbus.

But the airlines were not convinced, especially as their appetite for new toys faded, first after the onset of an industry recession in the summer of 2001, and even more so after September 11th. An executive of the oneworld alliance, which includes American Airlines, British Airways and Cathay Pacific, this week described the number of sonic cruisers these airlines would buy as “a very round number”, meaning zero. Lately Boeing has taken instead to showing airlines its early plans for its new conventional 250-seater.

The same technology of new composite materials and advanced computer-aided design that would have created the sonic cruiser will now be employed to produce efficiency rather than speed. The choice comes down to 20%

more speed, at the same fuel-burn rate and operating cost; or the same performance, with 20% less fuel and a lower operating cost. Although a few airlines are still dazzled by the possibilities of the fast sonic cruiser, there are not enough of them to persuade Boeing to launch it. Most airlines are now keener to save money and repair their profits.

“The balance [of the airlines] is towards efficiency,” says Alan Mulally, chief executive of Boeing Commercial Airplanes. “9/11 changed the equation.” This is the clearest statement yet from the company that the project has been shelved, although Mr Mulally hints that it might be revived in a smaller form later.

Besides killing the sonic cruiser, Mr Mulally's main concern is to keep wringing profits out of Boeing's core business, despite the aviation slump. The factory at Renton near Seattle, where Boeing 737s are made, has been reorganised to bring in lean production and a moving assembly line. Both this and the huge jumbo-jet plant at Everett on the other side of town are empty, ghostly places these days,

with production winding down to 23 aircraft a month, half the peak of recent years. Mr Mulally says he is improving productivity by 3% a year despite the lower throughput.

Roughly 30,000 jobs have already been cut. But Boeing now thinks the aviation slump will depress aircraft orders and production until 2005, because (at best) it will take until then for airlines' profits to recover enough for them to order more new aircraft. On November 20th, Mr Mulally announced a further 5,000 job losses. It was not a surprise.

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Online grocers

Off their trolleys?

Nov 21st 2002 | HATFIELD
From The Economist print edition

Will Ocado go the way of Webvan?

IN THE commuter belt north of London, Britain's most modern warehouse offers an intriguing experiment in time travel. Outside, in the glum town of Hatfield, all may be the post-dotcom-boom sobriety of autumn 2002. But inside, to paraphrase a certain diminutive pop singer, they are still partying like it's 1999 and the Internet bubble never burst. This is the home of Ocado, the country's—and probably the world's—newest online grocery-retailer, whose poster ads featuring yelling children are visible all over the capital.

Ocado has all the trappings of a dotcom, bar the formerly voguish appendage to its name. Tim Steiner and Jason Gissing, two of the three ex-Goldman Sachs bond traders who founded the company, wear branded magenta fleeces and baseball caps, and hold meetings in rooms tagged “strawberry” and “cabbage”. With touching enthusiasm they show visitors around the huge, high-tech new building, the size of eight soccer pitches, with shelf-stacking robots gliding along monorails, a NASA-style control room with plasma screens and satellite systems tracking delivery trucks on their journeys.

Borrowing technology from Volkswagen car plants, and others, the founders had everything built from scratch on an old airfield for a cool £40m ($62m). There is talk of exponential growth, of having to capture only a tiny slice of an enormous market, and of a clear path to profitability. A sceptic might wonder if they had ever heard of the first generation of hopeful Internet start-ups in the American food business, such as Webvan, Peapod and Streamline—all now spectacularly bust or reduced to a marginal existence.

Naturally, Messrs Steiner and Gissing believe it will be different this time. They point to the solid backing of Waitrose, the food arm of the John Lewis Partnership, one of Britain's most conservative retailers, which is letting them use its brand name, supplies all its food, and has stumped up 55% of the £115m Ocado has raised, for a 40% stake. The company is managed by two men who know the industry, Nigel Robertson and Roger Whiteside, the former heads, respectively, of food-buying and of food operations at Marks and Spencer, a British retailer.

The potential market is indeed huge: £105 billion of groceries are sold in Britain each year, and even the most conservative estimates suggest that 5% will eventually go online. Old bricks-and-mortar retailers, such as Sainsbury and Tesco, the world's biggest web grocer, have captured some of that. However, Tesco's decision to fill web orders from existing shops rather than dedicated warehouses was a mistake, say the pair. They claim that warehouse deliveries are faster and more accurate. Ocado says that 99% of its deliveries arrive on time and that it can offer free delivery for big orders and still beat its rivals'

margins. Since grocery shopping is the most hated chore after ironing, why wouldn't people sign up, asks Mr Steiner? Webvan failed because of reckless spending, he argues, not a mistake that Ocado will make: its computers and office furniture came from auctions of old Enron equipment.

For all the lessons the group says it has learned from the Internet meltdown, however, it is fast burning through its cash. To hit break-even by next summer, when its £30m of remaining funds run out, its present annualised sales of £25m must rise to £90m, which means attracting 15,000 shoppers a week, more than three times the current number. That sounds an awful lot when even Tesco, with its powerful brand and huge base of active customers, manages just £400m a year from 90,000 weekly orders. After six years, Tesco has only just made home delivery profitable. In America, Fresh Direct is making profits from warehouse deliveries in Manhattan, but only because fresh-food prices there are high. Britain's grocery market is already efficient and hard to undercut.

Ocado faces other problems. As its founders admit, ensuring good service is easy for a small business, but hard for a growing one. With Waitrose stores based in southern England, any brand advantage disappears if Ocado's plans to open five warehouses nationwide ever materialise. Meanwhile, more than 90% of Ocado's existing warehouse, which guzzles £6m a year in running costs, is idle. Whether the worker-owned John Lewis will pump in more cash if Ocado misses its targets is questionable. Mr Gissing's claims that “they won't let us fail—we are here to stay” sound all too familiar.

In today's environment, the courage of Ocado's founders is remarkable. They may even be right about the economics of warehouses. But as the dotcom era proved, enthusiasm alone does not build sustainable businesses. Ocado risks becoming a relic of a bygone era; and its warehouse, another giant white elephant.

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Food industry

Double Dutch

Nov 21st 2002
From The Economist print edition

Ahold, a big global food retailer and distributor, is in trouble

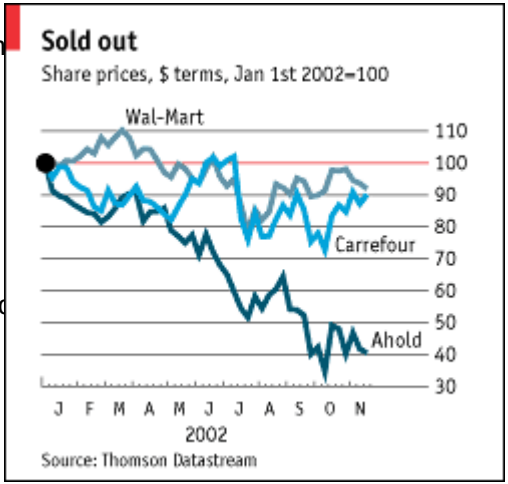
WHY IS Cees van der Hoeven still in charge of Royal Ahold? It is not just the awfulness of the third-quarter results released on November 19th by the world's biggest food distributor and third-biggest retailer that prompt this question—though a profit decline of 15% was bad enough. It is rather the Dutch group's utter disregard for proper communication with shareholders. Having stuck resolutely to a target for 2002 of 5-8% profit growth, Ahold has now announced that underlying profits will

instead fall by 6-8%. This is the second unwelcome shock in three months, after the group declared in August its first quarterly net loss in almost 30 years.

Worse, Mr Van der Hoeven failed to explain how he would sort out Ahold's problems, by when and at what cost—retreating instead into “a bunker mentality”, fumed one analyst. Not that his continued reign is his fault. This spring, he offered to resign, only to receive a contract extension of up to seven years from Ahold's comatose board.

Ahold, which earns two-thirds of its profits in America, from supermarkets and supplying

meals to institution is suffering from soft retail spending and competitio from Wal-Mart, the world's biggest retailer. It has also been hurt by Latin America's woes, losing *euro*410m ($423m) in Argentina alone.



Ahold took advantage of the laxness of the capital markets in the 1990s to go on a *euro*20 billion acquisition binge. As a result, it has debts of *euro*12 billion, interest charges that are eroding profits and an overly complex network of loosely affiliated businesses. Ben Britz, a retailing analyst at Morgan Stanley, argues that “there is not a lot of evidence that

they can integrate their acquisitions". Nor is it certain that Ahold can grow organically. Revenues at its American food business, Alliant, are falling faster than analysts expected even with divestments, suggesting that the firm may struggle to grow without more deals.

Analysts have been blinded by what they call an "avalanche" of numbers from Ahold, which, with a change from Dutch to American accounting standards, has made the firm's true performance over time hard to judge. Worse, management refuses to reveal the goals of its three-year recovery plan, which centres on cost-cutting and the sale of non-core activities such as financial services. Since Mr Van der Hoeven was responsible for assembling this retail empire, he may be loth to break it up, though that would quickly trim debt.

There are growing fears that behind its opacity Ahold might be hiding more fundamental accounting issues. "Several high-profile, acquisition-driven firms have unravelled. It is natural for the market to question the validity of what management is saying," says Mr Britz.

Oscar Poos, a Dutch equity analyst from Bank Oyens & van Eeghen, puts it more strongly: “Ahold has lost all credibility in the financial markets.” Given the importance investors are placing on transparency nowadays, Mr Van der Hoeven's behaviour is short-sighted—unless there are more shoes to drop. If he cannot answer his critics, perhaps he should now resign properly.

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About sponsc

Face value

The branding of Saint Rudy

Nov 21st 2002
From The Economist print edition

Rudolph Giuliani is venturing into America's hottest new market: for virtue

AP

THE crisis of confidence in corporate America has created an unprecedented demand

for men and women of unassailable virtue, unstained by the merest hint of commercial scandal or financial

conflicts of interest. (An unvirtuous personal life may be overlooked, however: this is the 21st century, after all.) Is there a firm in America that is not seeking several new directors who can demonstrate unquestioned independence of mind and sound judgment (if they can add up, they even get to chair the audit committee), to reassure investors and comply with new corporate-governance legislation? Virtue is desperately needed too in the regulation of business, after the taint of scandal swept away Harvey Pitt, the former chairman of the Securities and Exchange Commission (SEC), and William Webster, Mr

Pitt's choice to lead a new audit regulator.

If the demand is enormous, however, not so the supply. Where are America's virtuous citizens? Perhaps they lurk, long-ignored, in the dark corners of America's corporate boardrooms—though you would be brave to bet on it. Certainly, any chief executive seeking to enter the market for virtue should expect to be treated with derision, as some have discovered to their cost. Sandy Weill, the boss of Citigroup, tried his hand at virtue earlier this year, trumpeting his firm's enlightened new policies on executive pay. He was laughed off the stage. Jeffrey Immelt, chief executive of General Electric, is revamping GE's corporate governance to “make GE a great company and a good company”. No-one is buying that preposterous claim.

Still, doubtless plenty of B-list brands will emerge to meet the new demand for virtue. But the A-list is awfully short. There is Paul Volcker, a former chairman of the Federal Reserve who has answered duty's call many times, not least by giving early warning of the

present crisis in accounting and in his heroic failure to save Andersen from the knacker's yard. But he is getting long in the tooth, and has made it clear that he does not want another big job. Which leaves America's hottest new market open to be dominated by a newer brand: Rudy.

Being both a lawyer and a politician would normally rule out a person from the virtue business *a priori* . But Rudy Giuliani was no ordinary lawyer—as a prosecutor in the 1980s, he famously bagged Michael Milken, the “junk-bond king”. And he was no ordinary politician, almost single-handedly transforming New York from the capital of crime into one of the world's safer big cities, without giving anybody reason to think he was motivated by a desire to be liked or for personal financial gain. And that was before September 11th, when his grace under pressure made him “America's mayor” and “Saint Rudy”.

Even before September 11th, Mr Giuliani had been planning to cash in on his reputation. A new firm, Giuliani Partners, had been conceived. A contract had been signed for what

is now a best-selling business book, “Leadership”. But his opportunities are a thousand times greater than he could possibly have imagined. And yet so too are the risks.

One temptation may be to do nothing, except live off the myth that has grown up around his past achievements. He is now pounding the celebrity lecture-circuit, where he earns $100,000 or more for rock-star-like appearances. A TV movie (“Rudy!”, starring James Woods) is in production, which will certainly give the myth a new lease of life. “America's mayor” action dolls are already on sale—the perfect Christmas gift.

But as anyone familiar with brand management knows, neglected brands soon lose their power. Mr Giuliani faces a tricky choice: invest in the brand, or milk it aggressively while he can.

This choice is likely to be especially difficult for somebody like Mr Giuliani, who still has ambitions in the public sector—perhaps even for the White House. Earning a fortune by selling his virtue to the highest bidder would

certainly help towards that goal: American politics is famously demanding on the pocket. On the other hand, the highest bidders may be the firms with the greatest need for virtue, creating the risk that Mr Giuliani may lose more by his association with them than they gain from him. Such thoughts may have been behind Mr Giuliani's dithering this week over a proposal that he become chairman of WorldCom, a disgraced and bankrupt telecoms company. His reputation has already had one escape: his retention as an attorney, earlier this year, by Merrill Lynch, a bank with questionable investment-research practices, could have backfired badly.

There is also the risk of brand overstretch. In October, his firm won a $4.3m contract to export New York-style zero tolerance policing to Mexico city. Despite a promised visit earlier this month, the Mexicans still await the arrival of their hired gun.

Virtue is not its own reward

A return to a vital job in the public sector

would be the best way of investing in the brand, and one vital job for which he is eminently qualified recently became free: chairman of the SEC. This job which, thanks to Mr Pitt's fumblings, looks brutally difficult, pays only $150,000 a year—a wonderfully uncomfortable hairshirt for a public man of virtue. If he took this route, Mr Giuliani's brand value would be enhanced, but remain unhappily theoretical—a massively in-the-money, but unexercised option. And waiting to cash it in later would be a huge gamble (especially for a man with a $6.8m divorce settlement to pay). Market conditions might change. Nobody in the private sector was rewarding virtue two years ago. In another two years, people might have lost interest again. No wonder he has shown no interest in the SEC job—and lots of interest in cashing in.

All of which raises a crucial issue of public policy. Although the public sector does plenty of questionable work, some jobs are clearly crucial, and need to be remunerated properly. If the public pays peanuts for virtue, it may get monkeys, not Rudy.

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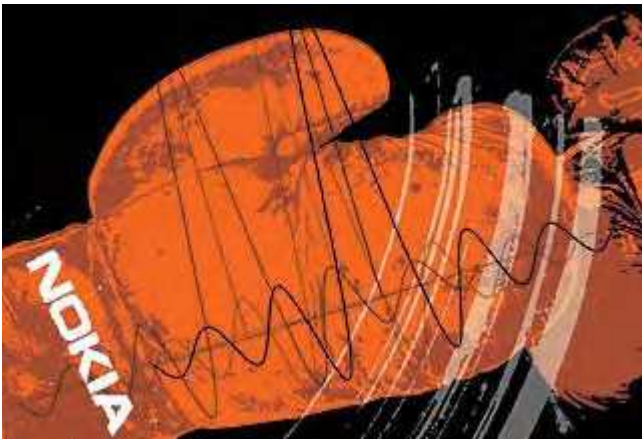
Nokia v Microsoft

The fight for digital dominance

Nov 21st 2002
From The Economist print edition



The convergence of mobile phones and computers is bringing the giants of the two industries into direct conflict

Get article background

IT MAY look like a mobile telephone, but the Orange SPV, launched last month, is much more than that. With its colour screen, garish icons and musical ringtones, it resembles other handsets on the market. But it has one far more significant feature: the software inside, indicated by a familiar-looking four-coloured logo on its screen. For the SPV is the first "Windows-powered smartphone"—in other words, it runs software from Microsoft. It is the software giant's attempt to stake its claim in the new market created by the convergence of mobile phones and computers. It is no less than a declaration of war.

The market for smartphones is still small. But it is growing fast, as new features are added to

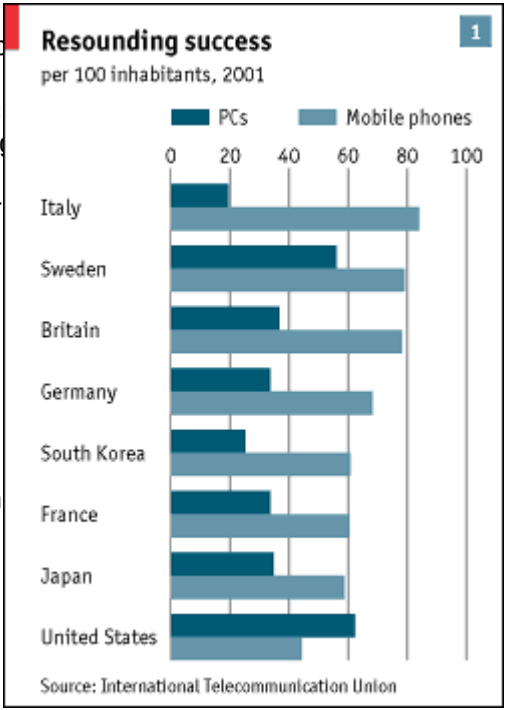
By putting new technologies into consumers' hands in an easy-to-use

handsets, making them ever smarter. Of the 400m mobile phones that will be sold this year, around 16m will have built-in cameras. Nokia, the world's largest handset maker, expects to sell 50m-100m colour-screen handsets next year. A new report from Analysys, an industry consultancy, predicts that by 2007 nearly 300m Europeans will be carrying handsets with colour screens, cameras, music players, support for downloadable games, and other features that are now available only in the most advanced models. Such features are already common in Japan and South Korea, and they are starting to appear in Europe and America. These advanced handsets are, in effect, pocket computers—but they have emerged from the consumer-electronics industry rather than the world of computing.

form, the new handsets seem to be succeeding where the PC has failed

By putting new technologies, such as

digital photograp and electronic messagin into consumer hands in an easy-to-use form, the new handsets seem to be succeedin where the PC has failed. Mobile phones have a far broader appeal than PCs (see chart 1). The lone exception is North America, where PC ownership exceeds mobile-phone ownership. But even there phones are catching up.



In Europe, more people now send and receive short-text messages on their phones than use the Internet, according to figures from Gartner, another consultancy. This year, users of mobile phones around the world passed the 1 billion mark. The number of mobile phones is now greater than the number of fixed-line ones.

The walkie-talkie PC

PC sales, meanwhile, have stagnated, and innovation has slowed: today's PCs are really just like those of a year ago, or two years ago, only faster. Sales of handheld computers, or personal digital assistants (PDAs), at around 10m a year, are dwarfed by sales of mobile phones. It looks increasingly as though the “personal computer” was a misnomer. The truly personal digital device today is the phone.

That does not mean that PCs will vanish. Just as mainframes continue to hum in companies' back offices 20 years after the emergence of the PC, so too PCs will continue to have an

important role. But their appeal is far from universal; no matter how cheap they become, there are limits to the number of people who want to buy one. Microsoft's once-visionary mission statement—“a computer on every desk and in every home”—now seems dated. Instead, the company talks of “empowering people through great software, any time, any place and on any device”. This is an acknowledgment, concedes Ed Suwanjindar of Microsoft's mobility division, that the PC is no longer king, and that “mobile devices are totally critical to the new extended vision for the company.”

It might seem an odd time to enter this market, given the uncertainty and technical difficulties surrounding the switch to “third-generation” (3G) mobile networks. But the possibility that mobile phones might be taking over from PCs as the focus of the entire technology industry means that Microsoft has no choice. Hence the launch of the SPV.

With its Windows-based software, the SPV is, in effect, a PC

The SPV is the first of a new

crammed into the casing of a mobile phone, complete with scaled-down versions of Microsoft's web browser, e-mail and media-playback software. It is the first of a new range of devices intended to extend Microsoft's dominance of the computer industry into the new mobile realm. Microsoft is hoping for a replay of what happened in the PC market, where hardware became a commodity and Microsoft established an enormously profitable monopoly with its Windows software. (Figures that emerged for the first time this week show that Microsoft's profit margins on its Windows software are 85%, whereas many of its other divisions are making losses.)

range of devices intended to extend Microsoft's dominance into the new mobile realm

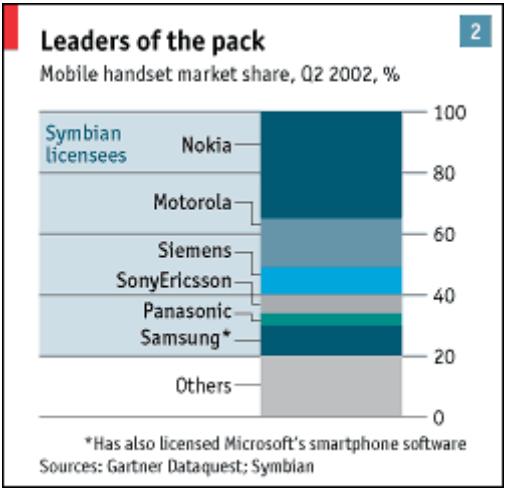
Yet even as Microsoft tries to get into this new market, the established mobile-phone makers, chief among them Nokia, are determined to stop it. They have seen how Microsoft's Windows monopoly turned PC makers into commoditised box-shifters, and they are determined not to suffer the same fate.

Symbianics

The first obstacle thrown into Microsoft's path by the handset makers was their refusal to license its software—a complete reversal of what happened in the computer industry. There, PC makers queued up to license Windows. The largest mobile-phone makers, on the other hand, established a software consortium called Symbian to produce smartphone software of their own. Their aim was to achieve the benefits of Windows (a single, common software standard) without what they regard as its chief drawback: that the predatory Microsoft owns it. “We want to fend off Microsoft—we don't want to go the way of the PC business,” says a spokesman at one handset maker.

Several Symbian-powered handsets have already come to

market. The latest is the Nokia 7650, with a built-in camera and colour screen. It was launched in the summer and sales are expected to exceed 2m by the end of the year. More Symbian handsets will appear over the next few months. Besides Nokia, Symbian's backers include Motorola, the world's second-largest handset maker, Siemens, the number two in Europe, SonyEricsson, Panasonic and Samsung. Between them, Symbian licensees account for almost 80% of all handsets sold (see chart 2).



Quite how the market will evolve, and what sorts of devices will prove popular, is not yet

clear, says David Levin, Symbian's chief executive. But just as car makers can make several entirely different models on the same “platform”, or chassis, the Symbian software is flexible enough to allow handset makers to try out many different designs without having to start from scratch every time. Some phones will focus on photography and picture messaging; others on playing music or games; yet others on corporate e-mail access. When Henry Ford launched the Model T, notes Mr Levin, he had no idea that the sport-utility vehicle or the Winnebago would follow. The handset business, he suggests, will also evolve in unexpected ways.

An interesting twist on the Symbian model has already emerged. The Symbian software provides the underlying features that are essential to a smartphone operating system, such as support for telephony, graphics, security and Internet access. But Symbian licensees and software developers are able to examine and modify its innards, unlike handset makers who use Microsoft's software. Licensees may also change the software's on-screen menus and graphics, or “user interface”. Nokia, for instance, has developed a

user interface called Series 60, and has licensed it to other phone makers, including Samsung, Siemens and Panasonic.

Series 60 could end up as the standard user interface for smartphones—much as Windows has for PCs. Microsoft is sceptical, of course. “Every one of Nokia's Series 60 licensees is a competitor in the hardware arena,” Mr Suwanjindar observes. “If you're Siemens, does Nokia have your best interest at heart?” Yet the only large handset maker to have licensed Microsoft's competing smartphone software is Samsung. And Samsung is well-known for licensing everything: it has Symbian and Microsoft licences, and it has also launched phones that use the Palm operating system, the dominant software in the niche PDA market. So Samsung's support for Microsoft's software is not the ringing endorsement it might seem.

Worse, Microsoft suffered a setback this month when one of the few licensees of its smartphone software, a tiny British handset maker called Sendo, defected to the Symbian/Nokia camp, announcing that its

forthcoming phones would use Series 60. Sendo cited its inability to gain access to the source-code of Microsoft's software as one reason for switching.

Microsoftly, softly

Having failed to sign up the large handset makers, Microsoft has decided instead to get round them by going directly to their customers: the mobile-network operators, which buy handsets in bulk and sell them to their subscribers. Microsoft is able to do this because a significant proportion of mobile phones (26% this year, according to figures from Strategy Analytics, a consultancy) are made by contract manufacturers, to which handset makers outsource some or all of their manufacturing. Some contract manufacturers, such as HTC of Taiwan, also design products and are known as “original design manufacturers” (ODMs). The SPV phone is a joint venture between Microsoft, HTC and Orange, a European mobile-network operator. HTC designed and built the hardware, Microsoft provided the software, and Orange agreed to

buy the phones.

For operators such as Orange, the appeal of this approach is that they can customise the phone and brand it with their own logo, differentiating themselves from rival operators. For Microsoft, the appeal is that it can get phones into the marketplace without the support of the large handset makers. In the long run, it hopes that the industry will develop as the computer industry did: away from a vertically integrated model, in which the same companies make hardware and software, and towards a horizontally layered model in which software is supplied by Microsoft and hardware becomes a commodity made by firms such as HTC.

But there are a number of problems with this vision. The main one is that the economics are skewed in favour of the large handset makers, which produce far bigger volumes. Nokia, Motorola and Samsung produce handsets in quantities measured in millions. An operator placing an order with an ODM, in contrast, will order a few hundred thousand handsets at best. With fewer economies of scale, this

makes the handsets more expensive.

Matti Alahuhta, president of Nokia's handset division, insists that his company has nothing to fear from contract manufacturers. About 20% of Nokia's production is outsourced, and this provides a reference, enabling Nokia to ensure that its own manufacturing facilities stay competitive.

Vertical integration will continue to make sense in such a fast-moving industry, says Mr Alahuhta. He concedes that handsets are becoming a commodity—but only at the very bottom of the market, and even there he claims that Nokia's superior logistics mean it has better margins than its smaller competitors. At the top end of the market, though, where Microsoft is trying to compete, Mr Alahuhta insists there is no sign of commoditisation.

It is too early to conclude that Microsoft's attempt to by-pass the handset makers will fail. But the omens from its previous joint venture with HTC, a hybrid PDA-phone running Microsoft's Pocket PC software, are not good.

Sales of the device, known as the XDA in Britain, the MDA in Germany, and the “T-Mobile Pocket PC Phone Edition” in America, have been slow. A British operator, O2, has sold only 12,000 XDAs since its launch this summer, despite a massive advertising campaign. This may reflect a lack of enthusiasm for PDA-like devices, but it also highlights another problem with the ODM approach: the lack of a strong brand.

Mobile phones are fashion items, and branding matters to their users. Once again the large handset makers, and Nokia in particular, have the upper hand. Surveys show that consumers rate Nokia above all other mobile-phone brands, whether or not their present phone is a Nokia. Its customers are also more loyal to Nokia than to their mobile operator, although operators such as Vodafone are now doing their best to promote their brands above those of the handset makers.

The powerful pull of monopoly

So far, then, Microsoft's plan to invade the

mobile-phone market is not going well. “Microsoft have their work cut out to have any major impact on this market as things stand,” says Ben Wood of Gartner. The company's best hope, he suggests, is to use its traditional weapon for attacking new markets: its Windows monopoly. By tightly integrating its smartphone software with its desktop and server software, Microsoft might be able to appeal to corporate users. For example, the SPV can, with the help of Microsoft's software, gain access to e-mail, calendars and databases on both PCs and servers.

But there could be legal problems with this strategy. Microsoft's competitors have already complained to the European Commission, which is investigating the company, that its next-generation e-mail server, codenamed Titanium, is being designed to favour those mobile devices that are running Windows.

It is far too early to count Microsoft out. It is nothing if not determined. Its lucrative Windows franchise will be able to fund its forays into loss-making new markets for years to come, and it is sitting on $40 billion in cash.

The troubled switch to 3G technology means that the mobile-telecoms industry is in turmoil, and Microsoft may be able to capitalise on the confusion. If all other strategies fail, it could always resort to the drastic step of buying an operator or handset maker.

Mr Suwanjindar insists that it is still early days, and that Microsoft continues to negotiate with handset makers about using its software. As for Nokia, which he agrees is Microsoft's biggest competitor in this arena, Mr Suwanjindar admits that “we have a tremendous amount of respect for them as a handset manufacturer”—in other words, only as a hardware company.

Smartphones, says Mr Suwanjindar, are an entirely new class of device. Although they resemble phones, that does not give Nokia and other handset makers a “birthright” to the market. “There is a contribution we can make to the mix,” he says.

In Nokia, however, Microsoft may have met its most Microsoft-like competitor to date. Comparisons between the two firms are

difficult to avoid. Mobile-network operators grumble that Nokia has too much clout, much as PC makers grumble about Microsoft. They also worry that with Club Nokia, its loyalty programme, Nokia is encroaching on the operators' own turf, just as Microsoft was wont to do. Club Nokia offers Nokia-specific features, such as ringtones, games and logos, which customers can take with them from one network provider to another.

Moreover, Nokia's Series 60 software could yet emerge as the mobile equivalent of Windows. “Nokia is the Microsoft of mobile phones, the gorilla of the industry,” says Gartner's Mr Wood. (It is also, he might have added, the equivalent of Dell, whose superior logistics have made it the number one PC maker.)

Yet, for all their similarities, Microsoft and Nokia differ in one crucial respect. Microsoft's dominance stems from its closely guarded ownership of Windows. But the mobile-phone industry, in which Nokia is top dog, is based on open standards. The use of common standards that are not owned by any particular vendor has benefits. For example, it enables handsets

based on the GSM standard to be used in most parts of the world. But it also has drawbacks: Europe's proposed standard for 3G does not work yet. Nokia has achieved its dominance not through ownership of proprietary technology, but from its ability to innovate around open standards, from its strong brand, and from its impressive logistics. In other words, in several respects it is not like Microsoft at all.

Nokia's attitude to Microsoft is revealing. “We are not in competition, but approach convergence from different sides,” says Mr Alahuhta, choosing his words carefully. He is right: Microsoft is so insignificant in the mobile-phone market that it is not a competitor—at least, not yet. But as their industries collide, the firms are sure to become opponents in what promises to be a long and bitter fight.

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Argentina

The hole gets deeper

Nov 21st 2002 | WASHINGTON, DC
From The Economist print edition

Argentina will suffer most from not repaying a World Bank loan. But President Duhalde (above left) and his economy minister may have started something bigger

Get article background

ON NOVEMBER 14th Argentina took a big step towards joining the club of financial deadbeats that includes Zimbabwe, Iraq, Liberia and the Seychelles—countries that are in default on their official debts to the World Bank. Argentina's government paid only $79.2m out of an $805m repayment that had become more than 30 days overdue. Since the country has over $9 billion of reserves—a figure that has been rising recently—its motive was largely tactical. Frustrated by the slow pace of negotiations with the International Monetary Fund over a new loan package, Roberto Lavagna, Argentina's economy minister, argued that no more money could be repaid to the Bank without an IMF agreement. He was clearly playing a game of chicken.

Will he win? Argentina stands to lose most in

the short term. Since it defaulted to private creditors last December, the World Bank and other international financial institutions have been the only potential source of funds for Argentina's government. Now that lifeline, too, is at risk. Until it pays off its arrears, Argentina will not be eligible for new World Bank loans (such as a $600m loan to help the poorest households). If no repayment is made within the next 30 days, all disbursements of existing loans will stop. After six months, the Bank would declare all its loans to Argentina—$8.5 billion in all—to be in “non-accrual status” (in effect, in default).

This deadbeat club is relatively exclusive. For the Bank's first four decades no borrower defaulted. In 1984, Nicaragua was the first country to become more than six months overdue. Since then only 19 countries have followed suit. By comparison, 85 governments have defaulted on their debts to foreign commercial creditors since 1975. Since the World Bank and other official lenders provide loans when nobody else will, countries usually try hard to keep paying them back. This “preferred creditor status” is one reason why the World Bank's bonds are rated AAA, even

though most of its loans are to a host of risky developing countries. So far, the Bank has always—eventually—been paid back in full, as deadbeat countries get out of their financial holes. Only this year, Syria and the Democratic Republic of Congo have paid off outstanding arrears. A “default” on World Bank debt, unlike a default on commercial debt, has not, so far, implied a permanent loss to the Bank of principal and interest. That explains why Standard & Poor's announced last week that it was keeping stable its rating outlook for the World Bank and other multilateral lenders to Argentina, despite the government's decision not to pay.

Other reasons include the World Bank's strong capital base and its conservative financial management. As emerging markets have experienced bigger financial crises in recent years, the Bank has been increasing its loan-loss provisions (currently at $4.1 billion) and putting aside extra reserves. Over the past five years, the Bank's total equity (the amount of cash that could, in extremis, be paid out to bondholders) has risen to $29 billion—much higher than its total exposure to Argentina. And beyond, there is still “callable capital”: the

$178 billion or so that the World Bank's shareholder governments have promised to supply if necessary. With that kind of cushion, it is small wonder that few are worried about the Bank's credit rating.

Double default

Even so, last week's decision could have serious consequences. First, as the World Bank's fourth-biggest debtor, with around 7% of its loans, Argentina is much bigger than any previous deadbeats. The amount of principal that Argentina left unpaid last week is more than the overdue amounts owed by all the other defaulting countries put together. Elsewhere the problem is much worse. At the Inter-American Development Bank, the World Bank's sister institution that focuses on Latin America, the concentration of loans to Argentina—and hence the potential cost of an Argentine default—is much bigger.

Second, if Argentina fails to pay up for more than a few months, prudence suggests that the World Bank will need to provide more against

the risk of Argentina's loans. More provisioning reduces the Bank's profits, which are a big source of cash for the poorest developing countries. In particular, there might be less money to subsidise cheap loans and pay for forgiving the debts of the very poorest. Alternatively, the Bank could boost its income by docking various interest-rate reductions that most borrowers tend to receive as a matter of course. Eliminating these “waivers” would hit other middle-income countries that borrow from the Bank, such as Brazil or Bulgaria. In short, the rest of the developing world will pay a price for Argentina's default.

Most troubling of all is the risk that Argentina's action might herald a shift in countries' willingness to default on loans from multilateral creditors. The deadbeat club has mostly consisted of the war-torn and the ungovernable: Sudan, Yugoslavia and Sierra Leone have all been members. In the 1980s debt crisis, Peru, Nicaragua, Guatemala, Honduras and Panama temporarily defaulted to the Bank. The region's bigger countries, such as Mexico, Brazil or Argentina, never did.

Now, with the world economy looking shaky and private finance scarce, several emerging economies, including Latin America's behemoth, Brazil, have debt burdens that are causing concern. Unless things improve soon, there could be more sovereign defaults in emerging markets. So far, Argentina is the only big emerging market that has been reduced to using default on multilateral debt as a chip in its financial negotiations. The worry is that it will not be the last.

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HSBC

Bottom-fishing

Nov 21st 2002
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HSBC embraces a predatory lender

“THIS is as bad a company as you can imagine.” So a senior regulator in America describes Household International, a consumer-finance company that HSBC, a global bank, agreed to buy last week. Household International is viewed by some of its customers and by state attorneys-general across America as a predatory lender. A report from Washington's Department of Financial Institutions in April listed its practices, which, it says, may include forging customer signatures on expensive, unsuitable insurance contracts.

Although Household Finance rejects the charges, it has reached a preliminary agreement with most state attorneys-general to pay nearly half a billion dollars back to its customers, and to reform its business methods.

For HSBC, a British-based bank that prides itself on its respectability, Household is an odd choice of partner. In recent years, HSBC's strategy has been to push into wealth management. Household's customers, however, have an average household income of only $45,000-60,000, and over a third do not have credit histories good enough to qualify for a “prime”, or mainstream, loan.

Household's accounting practices have also come under fire. William Ryan, an analyst at an independent boutique in New York, worries that Household's practice of re-ageing loans—meaning that loans are restructured but still counted as performing—masks poor loan underwriting. In August, Household said it would restate its earnings by $386m between 1994 and 2002, after KPMG had replaced Andersen as its auditor.

Thanks to awful sentiment on Household—its stock has fallen from a high of $62 to around $28—HSBC seems to be getting a bargain. Its offer of $14 billion is only 1.6 times the value of Household's assets, and seven times its 2003 profits, according to Simon Samuels at Schroder Salomon Smith Barney in London. The acquisition gives HSBC much-needed revenue growth and a chance to diversify away from Hong Kong and Britain. In many ways, HSBC's swoop is a welcome return to form—in its younger days the bank excelled at turning around cheap, distressed assets.

Although consumer-activist groups are trying to derail HSBC's purchase—a New York group called Inner City Press/Community on the Move filed challenges with regulators in America and Britain this week—the deal should be good news for Household's customers. Douglas Flint, HSBC's finance director, points out that only a minority have complained of predatory treatment, and says that it is unfair to extrapolate from a few stories to slur the whole company. At the same time, though, Mr Flint says that HSBC has a reputation that it will not prejudice, and that it will be sending in its own people to oversee standards at

Household.

If standards go all that much higher, however, HSBC may find that Household's profits are not what it hoped. In its settlement with the state attorneys-general, Household has promised to cap loan-origination fees and front-end payments at 5%, to restrict prepayment penalty periods to two years and to ensure that all real-estate-secured loans provide a net tangible benefit to the borrower. A new predatory-lending bill from Senator Paul Sarbanes would ban balloon payments, where the bulk of a loan is left unpaid until maturity, and mandatory arbitration, both of which Household uses. “The challenge for HSBC is how much of Household's earnings are sustainable,” says James Chanos of Kynikos Associates, a hedge fund in New York that until recently had a short position in Household International's shares.

Most surprising, from cautious HSBC, is its vote of confidence in the indebted American consumer. Household International's credit quality has deteriorated recently, and Schroder Salomon Smith Barney forecasts that

Household's bad-debt charge for this year will be $5.5 billion, compared with just $1.5 billion for HSBC before the deal. From now on, the bank's managers may start making sunnier remarks about the world economy.

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Citigroup

Should Sandy go?

Nov 21st 2002 | NEW YORK
From The Economist print edition

At what point is Citi's chief executive less an asset, more a liability?

EPA

ALLEN WHEAT is gone from CSFB; David Komansky will soon have left Merrill Lynch.

Investigat and a rotten market are combining to clean out Wall Street's stables. At some point, the woes attached to a chief executive's tenure appear more costly than the talents he brings to the job. No firm is more besieged right now than Citigroup: its leader, Sandy Weill, has become something of an embarrassment. Is it time for him to go?

Mr Weill is one of the highest-paid executives in the world, with a complex package worth more than $250m over the past two years, according to Graef Crystal, a compensation consultant. The strongest argument against Mr Weill is that he is not worth it: that Citi's

business, notwithstanding its huge profits, has begun to suffer from a series of poor decisions on his watch. The current furore over more salacious issues, such as whether and how he got his star telecoms analyst, Jack Grubman, to change a stock recommendation on AT&T, is diverting public attention from bigger problems.

Losses from aggressively-sold credit cards and consumer loans are on the rise; the brokerage operation has not cut costs in line with declining prospects. The entire strategy of a universal bank, with all the conflicts of interest it entails, is suspect, says David Hendler, an analyst with CreditSights, an independent research firm. So far, these shortcomings have been offset by the sharp decline in interest rates, but that has now largely run its course.

Mr Weill has hit one landmine after another since he forced out John Reed as his co-chief executive in early 2000. His acquisition later that year of Associates First Capital for $31 billion prompted an investigation into predatory lending that produced mountains of rotten publicity and led to a $215m settlement

in September. A greater cost may be the damage to Citi's reputation from a seedy business.

Citi was an unabashed financier of telecoms companies; Mr Weill was doubly involved, as chairman of the bank and as a board member of AT&T. This looks bad after the telecoms bust. A complaint filed in September against five executives of bankrupt and troubled telecoms companies for profiting from initial public offerings was largely devoted to detailing the corruption in Citi's equity research.

Hearings in Congress suggest that Citi also played a crucial role in creating the financial structure that obscured Enron's precarious condition from investors. Another settlement is said to be imminent over the destruction of e-mails requested by investigators. Pulled together, all these add up to a scathing indictment of poor management. As the revelations have come, one senior executive after another has been purged, but it is hard not to conclude that the management problem goes right to the top.

Then there is the scandal that touches Mr Weill most directly: his much-publicised relationship with the already disgraced Mr Grubman. With Mr Weill's encouragement, Mr Grubman briefly changed his negative recommendation on AT&T's stock just before a lucrative initial public offering. There is much speculation, and some e-mail evidence, that the recommendation helped to win support for Mr Weill's successful ousting of Mr Reed, from Michael Armstrong, AT&T's chief executive, who also happened to sit on Citi's board. Another e-mail suggests that Mr Grubman's recommendation came in exchange for help in getting his children into a nursery school, with the support of a $1m Citigroup donation to the school. At the least, Mr Weill is responsible for alerting Eliot Spitzer, New York state's attorney-general, to the dark and tangled world of schools for five-year-olds.

The most insidious damage may be the hardest to measure. The collective impact cannot possibly be good for morale at Citi, says John Whitney, a professor at Columbia Business School. Trust in the bank by outsiders, and within the bank itself, has undoubtedly been damaged. Any further deterioration will be

judged harshly.

Nevertheless, Mr Weill, who is 69, may survive for years. People who have studied his career say there is no chance that he will depart voluntarily. After Mr Reed's departure, Mr Weill promised the board that he would find a successor within two years. But that deadline has long passed: Mr Weill both screens and coddles his board with great care. On November 14th, it reaffirmed its support for his efforts to guide the company during these difficult times.

If financial markets are the best judge of Mr Weill, then he enjoys considerable support. Citi's share price has done better than many of its rivals'. Its funding costs in the bond market are 50 basis points below those of J.P. Morgan Chase. Many large shareholders admit they invest in Citi not because of the company, which may be impossibly complex, but because of Mr Weill's track record. Had they bought in when Mr Weill emerged from forced retirement in 1986 with the purchase of Commercial Credit, a consumer-finance company, their annual appreciation would have beaten 30%.

As long as Mr Weill can ensure that Citi makes money, investors will tolerate him.

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About sponsc

The recession index

Words that can harm you

Nov 21st 2002
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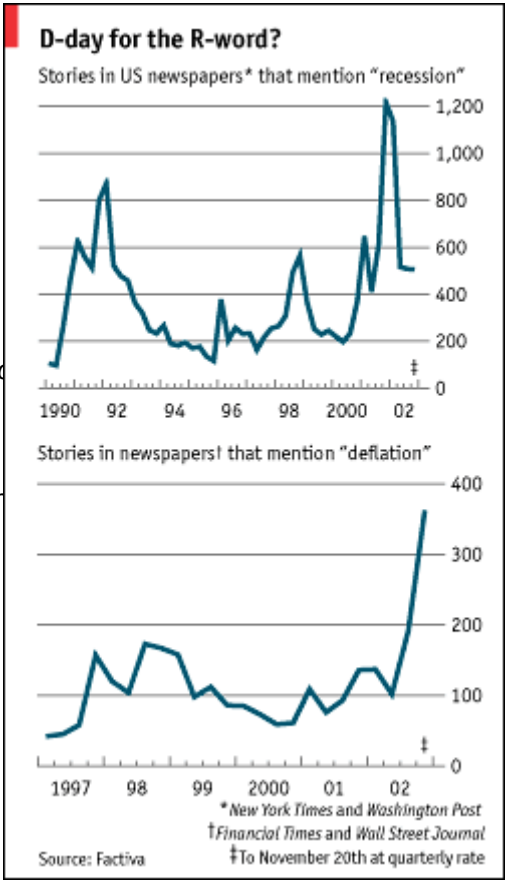
Less talk of recession, more of deflation

REMEMBER the R-word index, *The Economist*'s alternative indicator of economic activity? For

America, we count how many stories in the *New York Times* and the *Washingto Post* include the word "recessio Over the past two decades the R-count has been pretty good at spotting economic turning-



points.

Unlike official statistics, this count has the advantage of being instantly available. The R-word index signalled the start of recessions in America in 1981, 1990 and 2001. It also predicted the end of recession in 1982, but it proved misleading in the early 1990s, when newspapers continued to rant about a recession for a year after it had officially ended in March 1991.

The R-word started to flash red in the first quarter of last year, when it rose to a rate which has previously always signalled that a recession has already started. At the time 95% of American economists said it would not happen. But we now know that the American economy did indeed dip into recession in the first quarter.

So what does the R-word count now tell us? Is the American economy, as some fear, heading back into recession? Not yet. After peaking at the end of last year, the number of stories including the R-word has fallen back and it has remained below recessionary levels in the

current quarter.

The D-word, on the other hand, is spreading like a plague. Concerns about deflation are growing in America and Germany as well as Japan, so our “D-count” is more global, based on the *Financial Times* and the *Wall Street Journal*. Stories about deflation have surged this quarter to their highest since the 1930s. Add in all those other dreaded D words, debt, default, devaluation and even depression, and the economic outlook is distinctly dismal.

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Private equity

Trade secrets

Nov 21st 2002 | NEW YORK
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CalPERS faces a lawsuit on disclosure of its private-equity performance

HOW much detail should pension funds give about their ventures into alternative investments? In the case of private-equity investments with no quoted market value, disclosure can be misleading—and embarrassing. So argues the California Public Employees' Retirement System (CalPERS), the largest public pension fund in America, which has invested almost $20 billion of its $129 billion assets in an assortment of venture-capital, buyout and real-estate funds.

The strategy may have been good for CalPERS itself—but so far it adamantly refuses to tell. This reticence has prompted the *San Jose MercuryNews* to file a lawsuit with wide implications.

The newspaper is suing CalPERS for access to the fund-by-fund performance data of its private-equity investments, claiming that this should be a matter of public record. CalPERS argues that it is a trade secret. Last week, the San Francisco Superior Court ruled tentatively that at least some performance data falls into the public domain, but it gave CalPERS, and the private-equity funds in which it invests, three weeks to make their case.

CalPERS fears that forced disclosure would hurt its returns because it would be shunned by the best funds, which value discretion. First, it argues, large returns demand investment strategies that can work only if returns are kept confidential; second, only sophisticated investors—eg, the managers of big pension funds such as CalPERS—but emphatically not its clients, can tolerate the volatility that comes with investing in illiquid assets.

Private-equity funds, unlike publicly-traded stocks with returns that can be easily measured, report an internal rate of return (IRR), a fuzzy concept for which no standardised measure exists and which can easily be manipulated to boost results. CalPERS itself recently launched an initiative to standardise its measurement of IRR, even as it awaits the judge's decision.

Any move by CalPERS is likely to be followed elsewhere. In September the University of Texas pension fund willingly made public its private-equity performance, amid a hail of lawsuits from private-equity firms. The Massachusetts pension trust is considering a similar step. Private-equity funds fear the effect that disclosure might have on reputations. But these days the pressure for more transparency is hard to resist.

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Financial regulation

Protesting too much

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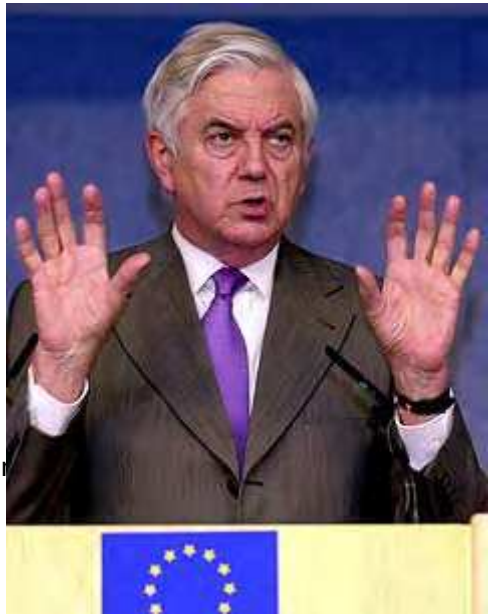
Investment firms goof up their lobbying in Brussels

AP

SOMETIMES you can lobby too hard. That was the mistake made by Peter Sutherland of

Goldman Sachs when he was wrangling with Brussels over pending legislation, according to sources at the European Commissio Frits Bolkestein, the single-market commissioner,



Sorry Peter, no can do, says Frits

smelled a rat. If these folk are lobbying so hard, he mused, there must be something they aren't telling us.

At the last moment this week, Mr Bolkestein stiffened revisions to a new draft investment services directive (ISD), governing the way

that big firms deal in securities, to thwart exactly the changes that Goldman and other big banks had been lobbying for. Mr Sutherland, a former commissioner himself, should perhaps have known better.

The latest amendments will oblige large investment banks to signal to the broader market their bid-and-offer prices before they execute in-house trades for retail clients. Such pre-trade transparency will be mandatory for limit orders, or instructions to deal only within a specified price range. Commissioners unanimously approved the revision of the draft ISD on November 19th.

Mr Bolkestein's change of mind is a setback for investment firms in the tug-of-war over the ISD. For many months their lobbyists have been wrangling with Eurocrats and envoys from stock exchanges over “internalisation” by financial institutions. Internalisation is the matching in-house of client orders to buy or sell exchange-listed securities, against either another client's order or the firm's own position.

Internalisation is forbidden, barring exceptional cases, in Italy, France, Spain and Greece. These countries have so-called concentration rules that force domestic investors to go through domestic stock exchanges when buying shares at home. Italians introduced concentration rules to keep their retail brokers honest by forcing them to go through the regulated market. The French argue that the same rules should apply to investment firms as to stock exchanges.

A week ago, things seemed to be going the investment firms' way. An earlier draft of the directive was going to allow internalisation, although with strings attached. Investment firms would be required to ask their clients for specific permission every six months to match orders in-house. They would have to make the price and size of the trade public, but only immediately after execution.

Why is transparency before a trade so unpopular with investment firms? Morgan Stanley and Goldman Sachs, two of the most prominent internalisers, match about a quarter of their order-flow in-house. Off-exchange

trading will become far less attractive if banks have to disclose trading intentions.

Investment firms argue that investors should be given the choice between less and more transparent methods of order execution. Telegraphing certain types of large orders to the market before execution, they say, will move the markets against investors and drive up costs. Some investors will simply not trade if pre-trade disclosure is made mandatory, they argue. Stock exchanges retort that disclosing an order to the broader market is necessary for efficient price formation.

Both arguments have some force, says Ruben Lee, a consultant. Price formation is at its most efficient with compulsory publication of pre-trade intentions and trade execution. But there is a trade-off: full transparency harms liquidity. Flagging a big trade can move prices considerably and widen spreads (the difference between buy and sell prices).

Yet the proposal for a revision of the ISD mandates transparency only for retail clients of large dealers. Big investors will still be able to

buy 50m Volkswagen shares without the public being in the know. Moreover, prices tend to be formed in the wholesale, not the retail market.

The approval of the ISD draft by the commission is only the first step in the legislative process, which will take at least another year. Now the investment firms and the Eurocrats will start to squabble about the definition of “retail” clients and “large” dealers. A fresh opportunity for Mr Sutherland, no doubt.

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European insurance

Generali steps out

Nov 21st 2002 | MOGLIANO, TRIESTE AND VENETO
From The Economist print edition

There is a new mood of openness at a traditionally opaque insurer

SECRETIVE and prone to damaging internal battles. That is the popular image of Generali, Europe's fifth-biggest insurer. A series of chairmen have been ousted in recent years, the latest on September 12th when Gianfranco Gutty resigned, having previously lost his job as chief executive in April. His replacement was Antoine Bernheim, who had himself been rudely ejected as chairman in 1999. These shenanigans strengthen another popular view, that the Italian insurer is in thrall to its biggest

shareholder: Mediobanca, a Milanese investment bank (see article).

Generali's performance lags that of its European peers. Its market capitalisation of *euro*22 billion ($22 billion) is barely above the level of 1997 and less than half its value at the start of 2001. Few rivals have fared worse. But there are changes afoot. Generali has become noticeably more transparent in its financial reporting in its latest two quarters. In a few weeks' time Generali will present a three-year strategic plan, giving investors precise performance and profit targets. The plan has been agreed only after heated discussions between headquarters and the group's far-flung subsidiaries.

This new spirit is the inspiration of Giovanni Perissinotto and Sergio Balbinot, Generali's top operational managers. When Mr Gutty lost his post as chief executive, these two Generali veterans stepped in as managing directors, with Mr Perissinotto taking charge of Italy as well as financial management, and Mr Balbinot having responsibility for the extensive non-Italian businesses.

Generali has a strong balance sheet and manageable debt. Moreover, it has always run its investments conservatively. That was a drag during the stockmarkets' go-go years, when rivals such as Allianz and Axa took more risk and prospered. But in today's environment, Generali's timid 10% exposure to equities is suddenly alluring. Mr Perissinotto argues that the group has the scope to guarantee investors' capital even while returning a margin on top. That could have powerful appeal.

Among its other assets, Generali boasts a portfolio of high-quality corporate bonds. Less obvious is a set of prime properties that might one day be floated separately—among its gems is an entire side of St Mark's Square in Venice.

There is also plenty of potential to cut costs. Mr Balbinot has begun streamlining the dozens of companies that constitute the group's international business. INA, an Italian insurer acquired in 1999, has now been fully integrated and promises good returns, particularly if Italy's government at long last tackles pension reform and introduces private

pensions.

There are other potential efficiencies. Generali has 30m customers in Europe and believes it can sell more than the average of 1.4 products to each, which is all it manages today. Successful bancassurers (combined bank and insurance outlets) sell far more per customer, Mr Perissinotto notes. Generali has introduced greater self-discipline, to protect profits. Last year, for example, it stopped selling guaranteed annuities in Switzerland, although they were one-third of its sales there.

Despite this progress, and a strong international presence (plus the fact that foreign institutional investors own around 25% of its shares), Generali still has its image problem: its secretiveness, plus the failure of past managers to combat the disproportionate influence of Mediobanca, giving the impression that it is the bank that calls the shots. To put this right, Messrs Perissinotto and Balbinot must persuade Generali's other shareholders to throw their weight around a bit more. A Generali freed from the grip of Mediobanca: now that might really put the wind up the

insurer's competitors.

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About sponsc

Mediobanca

Cross-breeding

Nov 21st 2002 | MILAN
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Generali's biggest shareholder still pulls strings

ONCE the powerhouse of Italian finance, Mediobanca, a small Milanese investment bank, has seen foreign rivals undermine its position as the pre-eminent adviser to the country's large companies. It even failed to rank among the top ten arrangers of completed merger and acquisition (M&A) deals last year. Yet, as recent events have shown, it is too early to write off Mediobanca. It may have lost ground in M&A, but it is still an operator behind the scenes. One of the plans it

has cooked up for Generali, a lacklustre Italian insurer (see article), has more to do with Italian political-economic skulduggery than with business logic, it seems.

Italy's competition watchdog anyway suspects the bank of being a little too racy. Last month, it launched an investigation into Mediobanca's role in a planned merger involving two leading insurance companies, Fondiaria and SAI, as well as into its position as Generali's biggest shareholder.

Together, these three could control Generali, as only around one-third of voting capital turns up for shareholder meetings. And voting power is not Mediobanca's only hold over Generali. The competition regulator has evidence that Mediobanca has appointed decision-makers and exercises general sway over Generali's management. So much for equal treatment of shareholders.

Mediobanca has plans to merge Mediolanum, a listed insurer and financial-services company, into Generali. Italy's prime minister, Silvio Berlusconi, heads Mediolanum's share register,

with a stake of 35.5%. Taking Mediolanum into Generali would make him the second-biggest shareholder in Italy's biggest insurer. Is this business—or politics?

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Economics Focus

Weighing up the WTO

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Does the world's free-trade club actually work?

BANNER-WAVING anti-capitalists and advocates of free trade (such as *The Economist*) seldom agree on much. But one thing readily accepted by both sides in the globalisation debate is that the World Trade Organisation (WTO), the Geneva-based outfit that oversees multilateral trade arrangements, makes a difference. Almost nobody doubts that the WTO and its

predecessor, the General Agreement on Tariffs and Trade (GATT), have helped to boost global trade, by encouraging countries to lower their tariff barriers in successive rounds of trade negotiations.

Until now. In a brutally contrarian paper*, Andrew Rose, an economist at the University of California, Berkeley, claims that the WTO has been ineffective. “There is no compelling empirical evidence showing that the GATT/WTO has actually encouraged trade,” he writes. How can this be? Hasn't global merchandise trade risen, on average, by 6% a year since the GATT was created in 1948—far faster than global output?

Yes, says Mr Rose, who is as keen on trade as most economists—but the WTO apparently had nothing to do with it. Being a member of the WTO makes no statistical difference to how much countries trade with each other, after taking into account other things that are widely assumed to influence trade, such as income and distance from foreign markets and suppliers. In a companion paper, he suggests why it might be that the WTO has so little

effect: membership seems to have little or no influence on trade policy. Although the WTO is ineffectual, Mr Rose argues, one agreement that does boost trade is the Generalised System of Preferences (GSP): a labyrinth of trade preferences that rich countries unilaterally give to poor ones. The GSP, and preferences in general, are viewed with suspicion by free traders, who see multilateral trade agreements—in which everybody receives the same treatment—as superior. Mr Rose finds that the GSP has doubled trade, whereas the WTO has made no difference.

This is startling stuff. Are Mr Rose's statistical methods wrong? Apparently not. He uses a standard approach to explain trade patterns and he tests his results carefully. Whatever you make of the findings, he has uncovered quite a mystery.

The simplest explanation for Mr Rose's puzzling numbers is that the WTO is indeed useless. But this is a conclusion that Mr Rose himself regards as contrary to common sense. There are other possibilities. The timing of membership, the pacing of trade reform and

differing attitudes to membership among particular groups of countries may all be clouding the truth.

As Mr Rose notes, *de facto* and *de jure* membership of the system are not the same thing. Countries may sometimes behave as though they are members even when they are not, in anticipation of joining. Conversely, many developing countries first joined the GATT on the understanding that they would be spared its obligations (and benefits). Until recently, the GATT system made few demands of poor countries, which are now the majority of the WTO's 144 members, and granted them second-class status in return. Many poor countries were allowed to keep their trade barriers high. India, a founding member of the GATT, still has tariffs that are among the highest in the world.

Over the past two decades, many poor countries have opened their economies unilaterally (or been pushed into it in exchange for loans from the IMF and World Bank). In contrast, the industrial countries joined the GATT early, but then reduced their

merchandise tariffs rather slowly over subsequent decades. Seen in the aggregate, all this may look as though the GATT had little or no effect. Yet it could still be true that the rich countries' long and gradual liberalisation would not have happened without it. And if the rich countries had not liberalised, neither would most of the developing countries.

The public good

Even if the quantifiable role that the GATT has played in boosting trade among members is modest, a rules-based multilateral trading system has broader benefits. As Mr Rose points out, the system may be a kind of public good, encouraging trade among all countries, members and non-members alike. Also, the WTO oversees a system of rules and dispute-settlement procedures that goes well beyond tariffs. Besides benefiting members directly, these processes may indirectly benefit non-members, by establishing pro-trade norms and standards of behaviour. Also, the system gives members benefits that go much wider than expanded trade—advantages which Mr Rose is

failing to capture. For instance, foreigners are likely to be more confident about investing in poor countries if they are WTO members.

Mr Rose's finding that the GSP is strongly trade-promoting is incidental to his main results—he cites it mainly for methodological purposes, to establish that his approach can detect some kinds of trade expansion. No less than his puzzling findings on the impotence of the GATT, however, his results on the potency of the GSP are both peculiar and troubling. Most previous research on the GSP has underlined the harm it has done to poor countries. One recent paper** by Caglar Ozden, an economist at the World Bank, and Eric Reinhardt of Emory University, argues that the GSP is anti-trade: on balance, the system actually delays a poor country's efforts to liberalise. Even if that were not so, the GSP seems certain to distort trade in a way that worsens its quality, regardless of any influence, good or bad, on quantity.

The Doha round of multilateral trade negotiations is struggling; the pendulum is swinging towards preferential bilateral and

regional agreements. Most economists believe this is bad. Mr Rose's arresting results challenge that view. They demand, and will no doubt receive, careful scrutiny.

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* “Do we really know that the WTO increases trade?” CEPR Discussion Paper 3538.

** “The Perversity of Preferences” World Bank working paper, forthcoming.

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About sponsc

Mining technology

Caves of steel

Nov 21st 2002
From The Economist print edition

Mines are getting smarter

ALEXIS ZORBAS, the title character of Nikos Kazantzakis's novel “Zorba the Greek”, is a workman filled with love of life, but uneducated about mining. His efforts as foreman of the narrator's lignite mine end ignominiously, even though his instinctive abandonment of the mine before a collapse saves both his life and those of his co-workers. In the 50 years since the book was published, mining has certainly changed, but all too much has remained the same.

Thus, it is still a hazardous, dirty business, fraught with the danger of explosions, both accidental and deliberate. The mechanisation of mines has increased their size and productivity, but has done little to alter the lot of miners who toil deep underground. The diesel-burning machines that are now commonplace certainly do not make the air in mines any cleaner. And when disaster strikes, as it did in last summer's flood of the Quecreek coal-mine in Pennsylvania, trapped miners still have their communications cut off and are

unable to co-ordinate with their rescuers. But all this is changing. A technological revolution is coming to the business of mining.

I me mine

One important change will be the introduction of fuel cells. These devices, which generate electricity by combining hydrogen and oxygen and so produce only water as an exhaust, have long been trumpeted as the next generation power pack for vehicles on the surface. That has yet to happen. Underground, though, the fuel cell's moment has arrived. Mines have a lot of heavy stuff to move around, and fuel cells seem an ideal way to power the machines that do it—both the locomotives that transport ore long distances, and the trucks that collect it from the rock face.

The first fuel-cell-powered mine locomotive has just been unveiled at a seminar in Palm Springs, Florida, by Vehicle Projects, a company based in Denver, Colorado. According to Arnold Miller, the boss of Vehicle Projects, this prototype cost around $2m to build. It was

tested successfully in September at an experimental mine in Quebec. The firm plans to deploy a scaled-up version in South Africa in the near future.

Vehicle Projects is already working on another machine: a fuel-cell-powered LHD (Load, Haul, Dump vehicle). LHDs are the workhorses of the rockface. They have huge scoops, and are responsible for gathering ore and putting it into locomotive wagons.

Eliminating engine fumes could save millions of dollars a year at a large mine

Unlike existing locomotives, which are often battery-powered, and for which the principal advantages of fuel cells are that they last longer than batteries and can be recharged faster, existing LHDs are diesel-powered. The fumes they produce put a huge (and costly) strain on mine ventilation systems. Eliminating those fumes could save millions of dollars a year at a large mine, as well as improving miners' health.

LHDs are also the subject of another high-tech approach. In a paper in *Information Sciences*, Jonathan Roberts and his colleagues at the Commonwealth Scientific and Industrial Research Organisation (CSIRO) in Kenmore, Australia describe their experience turning them into autonomous robots.

In underground mines the standard way of releasing ore is to drill a series of small holes in the rock, stuff in explosives, and then detonate them. The resulting “muck” is carted away by an LHD.

The blasting-zone is the most dangerous part of such a mine, as stresses caused by the explosions make the walls prone to collapse. So mine operators have tried for years to control LHDs remotely. However, this results in a substantial loss of productivity compared with LHDs that have human drivers. Part of the reason is that, although repeatedly filling a scoop, driving a short distance and dumping the contents is boring, doing so remotely is even more boring—with the result that operators are likely to make mistakes.

Dr Roberts and his colleagues have therefore set out to make a completely autonomous LHD. The basic principles—arcana such as reactive navigation and neural networks—have been kicking around robotics laboratories for years, but the CSIRO group is among the first to apply them successfully in mines. Dynamic Automation Systems, a spin-off firm affiliated with CSIRO, now has two autonomous LHDs running in commercial mines.

Everybody's saying it

Machines that cannot be set to automatic and left to get on with it need, however, to be told what to do. So do people. Another important aspect of a mine is therefore its communications network.

Early systems for communication in mines relied on wires and telephone booths. In the 1970s, so-called “leaky-cables” were introduced. Leaky-cables are exactly what they sound like: cables with the insulation stripped away at intervals, allowing the detection and transmission of radio waves. However,

although such systems work well enough for voice conversations, the rise of automation in mines calls for something more.

One new system, called Ucelnet, is being developed by Kah-Seng Chung and his colleagues at the Curtin University of Technology in Perth, Australia. Ucelnet is a modified cellular-telephone system. Base stations are placed roughly 200 metres apart, and the network can turn automatically into several sub-networks should there be a loss of connection between any stations. That means it should remain at least partially operational if there is a cave-in.

Dr Chung first tested Ucelnet in 1999, and has gradually been adding features since then. The system can, for example, track the location of users. In future, he plans to incorporate control signals into Ucelnet. These would allow it to be used to run remote-controlled mining machines.

Cellular telephones cannot, however, broadcast through rock, since rock is more or less opaque to radio waves. But not completely opaque.

David Reagor and his colleagues at America's Los Alamos National Laboratory, in New Mexico, have managed to detect low-frequency radio signals broadcast through hundreds of metres of solid rock using SQUIDs (Superconducting Quantum Interference Devices). That is possible because SQUIDs, which, as their name suggests, employ the magic of both superconductivity and quantum physics to perform their tricks, are around 10,000 times more sensitive than conventional radio receivers. Whether that makes them as sensitive as Zorba is an unanswerable question.

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Ore processing

Rumpelstiltskinia?

Nov 21st 2002
From The Economist print edition

A cleaner and cheaper way of refining ore is to use bacteria

SO YOU have thousands of tonnes of stuff, all dug from the earth's bowels. What do you do with it? Rather like Rumpelstiltskin spinning gold from straw in the Grimm fairytale, mining companies want to turn their muck into money. But there is an intermediate step—the ore must first be made into something they can sell.

This is a nuisance. The 13.5m tonnes of copper mined across the world every year has to be

separated from more than 600m tonnes of waste. For the fifth of this copper that is bonded to oxygen, that is relatively simple. You pile oxide ores into a big heap, spray some acid on top and, abracadabra, the copper flows out, having dissolved in the acid. It is then straightforward to extract the copper from the solution by electrolysis.

Unfortunately, the other 80% of the world's copper, as well as almost all of the nickel mined each year, is bonded to sulphur. Sulphide ores require more subtle preparation. First, they must be ground up, mixed with water and stirred vigorously while some chemical seasoning is added. Then the mixture must be dried and smelted at 1,200°C. The sulphur vaporises (often returning to earth as acid rain), and the metal is left behind.

Conservative estimates suggest that, even with modern, clean smelters, copper production releases at least 400,000 tonnes of sulphur into the atmosphere each year. (Nickel smelters release as much again.) And copper produced this way costs around $1,400 a tonne. So if copper could be produced from

sulphide ores at a mere $880 a tonne without smelting, and nickel at a similarly competitive price, that would be a useful breakthrough. If it could all be done without releasing sulphur into the atmosphere, it would be even better.

Titan Resources, a firm based in Perth, Australia, believes it can manage to do both, without using any of the physical and chemical processes traditionally involved in purifying ores. Instead, it has turned to biology. BioHeap, as Titan dubs its process, uses bacteria that the company has developed by selective breeding over the past five years. The bacteria are sprayed on to heaps of sulphide ore, along with some acid. The bacteria convert the sulphides to oxides, and the metal flows out with the acid, leaving only the sulphur behind.

Titan has tested BioHeap successfully on a 5,000 tonne nickel heap. And it recently signed a contract with China's biggest nickel producer, Jinchuan Nonferrous Metals. Jinchuan plans to start using BioHeap in both copper and nickel mines in the next few months. So what is Titan's wonderful bacterium called? Like the

miller's daughter in the fairytale, you'll have to guess—it's a secret.

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About sponsc

Computer viruses

Throttled at birth

Nov 21st 2002
From The Economist print edition

A new way of thwarting viral epidemics on computers

EARLY in the morning of July 19th 2001, a variant of a computer virus known as Code Red started spreading across the Internet. Within 14 hours, some 350,000 machines were infected. Like most modern virus outbreaks, it happened too quickly for people to intervene. In the time that it takes a technician to swig a mouthful of cold coffee and clear the boxes of congealed pizza from his desk, 30 new machines around the world can be infected. Unsurprisingly, therefore, viruses often run riot

before any effective response can be mounted.

Matthew Williamson, a researcher at the Hewlett-Packard laboratories in Bristol, England, has now thought of a way to hamper the spread of a virus until engineers can finish their pizzas and get to the scene of the crime. He presented it at a recent conference at the Santa Fe Institute in New Mexico.

Dr Williamson's approach is based on the observation that computers infected by a virus behave differently in one key respect from uninfected computers. Once a virus has infected a machine, it will generally try to connect that machine to as many new computers as possible, as fast as possible, so as to spread itself further. A virus called Nimda, for example, gets its hosts to make new connections at a rate of up to 400 a second. Uninfected machines normally make connections at a far less frantic rate. Those connections are also more likely to be to machines that are both familiar and in big demand, such as mail servers or the hosts of favourite websites.

The idea, then, is to limit the rate at which a computer can connect to new computers, where “new” means those that are not on a recent history list. Dr Williamson's “throttle” (so called because it is both a kind of valve and a way of strangling viruses at birth) restricts such connections to one a second. This might not sound like much to a human, but to a computer virus it is an age.

And it seems to work. Recently, the throttle was tested on a group of 16 machines connected in an isolated network. When one of these machines was exposed to Nimda without the throttle being installed, all but one of the group were infected within 12 minutes. However, in one test when the throttle was applied, it took 13 minutes for a second machine to be infected, and half an hour for a third.

But the particular benefit of throttling is that it alerts people to an attack. When a virus infects a computer with a throttle, a huge backlog of requests develops within a few seconds. This is easy to detect, and once detected, human intervention becomes possible. In addition,

though throttling has a big impact on the spread of a virus, it makes little difference to ordinary activities such as web browsing. Dr Williamson has been testing the system on his colleagues over the past three months. Some 98% of connections were made with no extra delay. The maximum delay—which was experienced in one connection in 80,000—was of only five seconds.

Throttling viruses in this way is such a simple idea that it raises the question of why it has not been thought of before. According to Dr Williamson, part of the reason is that most people think of computer security in a binary—ie, “on” or “off”—fashion. Throttling merely slows things down, making a system resilient rather than completely resistant. People also, not unnaturally, think mainly about protecting themselves from attack. Yet, like vaccinating children, much of the benefit of throttling accrues to others—ie, those to whom the virus is not transmitted, even if those others have not taken the trouble to protect themselves. In fact, it is in some ways worse than vaccination, since at least a vaccinated individual is also protected (albeit at the small risk of an adverse reaction to the vaccine). With

throttling, all the benefit accrues to others.

Nevertheless, Dr Williamson reckons that the threat of viruses is large enough for big companies, and organisations such as universities, to do the decent thing. And given how many people get viruses from their friends, it might also be seen as public-spirited for individuals to get protection before they make a connection.

The throttle could be the start of a trend. Researchers are only just beginning to explore systems that will be more resilient to failure than today's. Dr Williamson says that computer architecture that will automatically hamper, mitigate, disrupt or confuse attacks is a rich area of research. Resistance may be futile. Resilience most certainly is not.

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About sponsc

The Prestige oil spill

A game of consequences

Nov 21st 2002
From The Economist print edition

An ecological disaster. Or maybe not

THE demise of an ageing oil tanker laden with some 77,000 tonnes of heavy fuel oil may not be the worst oil spill in history (see chart), but it has certainly attracted the attention of the world's press. And there is not much that can be done about it. That about sums up the story of the *Prestige*, an ill-fated vessel that sank on November 19th in rough seas off the Atlantic coast of Spain.

Cleaning
up a

spill like this is not straightfo Heavy fuel oil will not disperse or emulsify easily when treated with detergent In any case, some detergent can be more toxic than the oil itself. All spills, even those of heavy fuel oil, clear over time. There will be

The black list

Major oil spills

Name of tanker and place of spillage	Tonnes '000 spilt	Year
Atlantic Empress, Tobago	287	1979
ABT Summer, Angola	260	1991
Castillo de Bellver, South Africa	252	1983
Amoco Cadiz, France	223	1978
Haven, Italy	144	1991
Odyssey, Canada	132	1988
Torrey Canyon, Britain	119	1967
Urquiola, Spain	100	1976
Hawaiian Patriot, Northern Pacific	95	1977
Independenta, Turkey	95	1979
Jakob Maersk, Portugal	88	1975
Braer, Britain	85	1993
Khark 5, Morocco	80	1989
Prestige, Spain	77*	2002
Aegean Sea, Spain	74	1992
Sea Empress, Britain	72	1996
Exxon Valdez, United States	37	1989

*Load. Spillage not yet established

Source: International Tanker Owners Pollution Federation

significant short-term effects, though. Heart-rending pictures like the one below, of oiled sea birds, are one. Such birds, and other coastal animals, will be killed in droves.

Yet according to Robin Law, a marine chemist at the Centre for the Environment, Fisheries and Aquaculture Science, a British government research agency, inshore waters in areas exposed to the scouring action of wind and tide will recover within two to three years. Their wildlife will recover with them. As Malthus observed two centuries ago, the potential for natural increase in populations unconstrained by competition for food is enormous. That applies to depleted seabird populations as much as to people.

More sheltered parts of the coastline, of which this area of Spain has a number, are likely to fare worse. There, the oil will probably settle. That could have economic consequences. The cargo of the *Prestige* was similar to that of the *Erika*, a vessel that went down off the west coast of France in 1999. It contains a lot of polycyclic aromatic hydrocarbons—molecules that are extremely carcinogenic. And heavy oil

tends to stick to ocean sediments. That could, as in the case of the *Erika*, result in the long-term contamination of shellfish beds, and the closure of parts of fisheries around inlets where a lot of oil has settled.

AP

Tarred and feathered

Most of the oil on the *Prestige*, however, seems to have gone down with the ship. At the temperatu of the seabed (about 4°C in this part of the world) the oil is likely to assume a gel-like form. So long as the *Prestige* remains in one piece, that oil will stay put. Eventually, though, the ship will break up. When this happens, the oil will probably resurface. It is only slightly denser than water, so the best guess is that it might float just

below sea level. Experts are divided about whether it will return in one giant and damaging blob, or in small gobbets over a long period.

Even if the damage turns out to be slight, this accident could be a turning-point in Europe, rather as the *Exxon Valdez* spill in 1989 proved to be in America. This week's photogenic sinking, coming not long after the death of the *Erika*, looks likely to spur Europe into recriminations, and possibly even action (see article). For as long as the world remains reliant on petroleum, though, oil spills will happen—and some will indeed be long-term ecological disasters. Only time will tell whether the *Prestige* turns into one.

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Trade in endangered species

Out of CITES, out of mind

Nov 21st 2002
From Economist.com

Convention v convention in the world of endangered species

AS USUAL, there were winners and losers at the meeting of the Convention on International Trade in Endangered Species (CITES) that closed on November 15th. The winners at the meeting, held in Santiago, Chile, included two species of shark, 26 species of turtle, all 32 species of seahorse and, to show that conservationists are not prejudiced against plants, mahogany. All of these have now been listed in Appendix II of the convention, which means that they can be traded only if special

permits are issued.

The main loser was the Patagonian toothfish (also known, thanks to the activities of a marketing department somewhere, as the Chilean seabass). This is a commercially important species whose numbers are threatened by illegal trade. However Australia, which had proposed putting the toothfish in Appendix II, withdrew the proposal even though it had significant industry support. Some would argue that elephants also lost, since Botswana, Namibia and South Africa will be able to make one-off sales of ivory stockpiles that they have built up as a result of legal culling.

The sharks were a particularly noteworthy listing, because CITES has not traditionally played a role in global fisheries. According to one observer, however, the proposal to list the toothfish arrived “limping into Santiago”. Before the start of the meeting, a gathering of the Convention on the Conservation of Antarctic Marine Living Resources (CCAMLR) had given the proposals a rough ride. CCAMLR is responsible for managing the toothfish, and

its member countries were not impressed by the possibility of interference by CITES. Half of CCAMLR's member countries insisted that the proposal was withdrawn, and more toothless resolutions adopted instead.

Yet although the toothfish was not listed, the fact that it was discussed at all is seen as an extension of CITES's influence into activities that are big business. The same applies to the listing of the whale shark and the basking shark, which are both commercially important, and of mahogany, which draws forestry into the convention's orbit.

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About sponsc

Rogues and eccentrics

A lexicon of crazyology

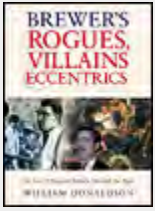
Nov 21st 2002
From The Economist print edition

If you are bad—or mad—enough, you can

fool most of the people most of the time

THERE is only one thing worse than a reference book in which you cannot easily find what you want, and that, as Oscar Wilde might have said, is one in which you can. The best ones are so compulsively distracting that they entice the reader on a chase that takes him ever further away from the entry he intended to consult. “Brewer's Dictionary of Phrase and Fable”, first published in 1870, is by widespread consent the nonpareil of instructive digression. Now the Brewer

Brewer's Rogues, Villains and Eccentrics: An A-Z of Roguish Britons through the Ages
By William Donaldson

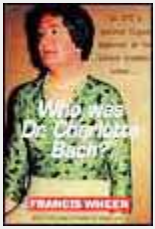


Cassell; 662 pages; £20

Buy it at
Amazon.co.uk

Who Was Dr Charlotte Bach?
By Francis Wheen

franchise has been extended to British (including Irish) nutcases and criminals by William Donaldson, an impresario, novelist and practical joker.



Short Books; 141 pages; £9.99

Buy it at Amazon.co.uk

The new dictionary is certainly distracting enough to bear comparison with the original. Who could skip past “Massereene, Clotworthy Skeffington, 2nd earl of (1742-1805), peer, soldier and persistent debtor”, or ignore cross-references to “chinchilla on one's head, dancing with a”, “love to a German princess, impudently desiring to make”, “maiden speech, too bored to complete one's” or “Jesus was a walking mushroom, theory that”? When J. G. Ballard composed a short story from index-entries, it worked. By including quite so many of them in the body of this text, Mr Donaldson opens himself to the accusation of trying too hard to be funny.

He needn't have bothered, for his material is strong enough to serve deadpan. Consider Daniel Dancer, an economically minded farmer who, put off by the cost of lighting a fire to heat a gift of trout, and equally unready to suffer toothache from eating the fish cold, sat on it until it was warm enough to consume. Or the Reverend Harold Davidson, who, banned from tea-shops for practising his trade of rescuing fallen women, performed variety acts in which he protested his innocence and was in the end eaten by a circus lion.

Mr Donaldson does not deal even-handedly with the recent and historic past. It seems that a long-dead murderer may comfortably be included as a jolly villain, but recent ghouls are beyond the pale. There are entries for Jack the Ripper and Dr Crippen, but not Fred West, Dennis Nilsen or Harold Shipman. On the other hand, if you are a celebrity nowadays, it is easy enough to qualify for inclusion also as an eccentric. Paul McCartney has an entry for saying that he proposed to his second wife because of a message from an owl, which is chickenfeed by the superstitious standards of show-business.

The temptation to make someone sound madder than they were must have been hard to resist. Did the philosopher Herbert Spencer—one of two former contributors to *The Economist* to figure here—really check his pulse to see if he was still alive? Maybe, but there were more eccentric philosophers who are missing. Why turn away the gift of Bishop Berkeley, who famously denied the existence of matter and became obsessed with advocating cures for constipation? Or John McTaggart Ellis McTaggart, known as the Loonie in his schooldays, who walked like a crab and tried to disprove the existence of time?

One notable omission, which would probably have gone unremarked without Francis Wheen's intriguing little study, is a crank London sexologist, Charlotte Bach (1920-81), born Karoly Hajdu, who confidently expected a Nobel prize for his theory that sexual deviation and the desire to change sexes was the driving force of evolution. His career included spells as a wartime spiv in Hungary, and as a confidence-trickster, hypnotherapist, bogus baron and spanking madam in London. The last act of this implausible melodrama saw him

succumb to his own theories in high heels, short dresses and pearls, delivering talks on logic, Shamanism, relativity, Freud, alchemy, Bertrand Russell, the Tibetan Book of the Dead and much else to a circle of devotees in dingy flats in North London.

The whole story is incredible enough to sound like an elaborate hoax. The book gives no references or acknowledgments, even for the very strange photographs. Those of Hajdu as Charlotte make it hard to think that anyone could have taken him for a woman. Yet a Charlotte Hajdu, born 1920, can be found in the register of London deaths for June 1981. Whether a genuine faker or a highly embellished one, Hajdu-Bach is a reminder that for every eccentric there are many more fools.

Brewer's Rogues, Villains and Eccentrics: An A-Z of Roguish Britons through the Ages.
By William Donaldson.
Cassell; 662 pages; £20

Who Was Dr Charlotte Bach?
By Francis Wheen.

Short Books; 141 pages; £9.99

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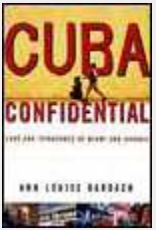
Cuban-American relations

Miami rules

Nov 21st 2002
From The Economist print edition

THE Berlin Wall and the Iron Curtain are long gone, but in Havana, Fidel Castro, gaunt and grey, has outlasted nine American presidents. Across the Florida straits, a million or so Cubans or their descendants now live in the United States. The exiles, mainly because of their

Cuba Confidential: Love and Vengeance in Miami and Havana
By Ann Louise Bardach



Random House; 417 pages; $25.95

Buy it at Amazon.com

geographical concentration in Florida—not just the fourth largest state, but a politically competitive one—have acquired an influence on American foreign policy second only to that of Israel. They have used it to sustain and even tighten a futile trade embargo, whose main achievement in its critics' eyes has been to help keep Mr Castro in power.

In “Cuba Confidential”, Ann Louise Bardach, a journalist whose work has appeared in *Vanity Fair*, *New Republic* and the *New York Times*, brings together the fruits of her reporting on Cubans on both sides of the Florida straits. She is keen to show how each side has moulded the other's behaviour. This approach generates some helpful insights.

She reminds us that the sterile stand-off between Cuba and Miami is partly one within and between broken families. For example, Lincoln Diaz-Balart, a member of the House of Representatives, whom she credits with the

dominant influence on the current administration's Cuba policy, is a nephew of Mr Castro's first wife. Ms Bardach is particularly sharp-eyed about Cuban families. She notes that on the island “more than half of all couples divorce, many never marry and infidelity is the national sport”. She points out, too, that Mr Castro has set a poor example: she reckons he has had nine children with five different women.

But the author dwells more on a second thesis, that “the hijacking of the Cuban revolution” by Mr Castro has been mirrored in Miami, where “exiles seeking freedom have been shunted into silence by hardliners bent on revenge, retribution and power.” She details the rise of Jorge Mas Canosa, the late boss of the Cuban American National Foundation, who had links to the violent, terrorist fringe of exile politics and to Oliver North's 1980s contra operation in Central America.

On this, Ms Bardach, who is a tenacious reporter, scores some points. (Mas Canosa sued her for libel, but ended up settling with the *New Republic*.) She interviews Luis Posada

Carriles, Mr Castro's most persistent would-be assassin. She is surely right to criticise George Bush senior for his ill-considered pardon of Orlando Bosch, who with Mr Posada was responsible for placing a bomb on a Cubana airliner in 1976, killing 73 civilians. She is right, too, that Mas Canosa was a *caudillo*, and not by instinct a democrat.

Yet in her desire to establish the equivalence of Mas Canosa and Mr Castro she overreaches, falling into conspiracy theory ("even when corruption is prosecuted in Miami, it may not be so much in the interests of the public as in the interest of certain members of the ruling elite") or exaggeration. Exile politics are rarely pretty: the Miami Cubans are hardly alone in being riven by the desire for vengeance, sectarianism and the fear of treachery. And, as Ms Bardach acknowledges but explores only perfunctorily, Cuban exile opinion is plural, and becoming more so.

The book begins and ends with the case of Elian Gonzalez, the unfortunate six-year-old who survived shipwreck only to fall into the hands of the relatives from hell in Miami. Ms

Bardach concludes that his case was “the single most transforming event for Cuba-US relations since the Bay of Pigs”, the CIA's hamfisted effort to remove Mr Castro from power in 1961. That judgment, too, looks exaggerated.

Certainly, most Americans outside Miami thought Elian should be returned to his father in Cuba. But most Americans, too, have long opposed the embargo against Cuba, which is slowly being pierced. As long as Florida politics remains finely poised and as long as Mr Castro rules in Havana, transformations will be off the agenda.

Cuba Confidential: Love and Vengeance in Miami and Havana.
By Ann Louise Bardach.
Random House; 417 pages; $25.95

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British history

General manager

Nov 21st 2002
From The Economist print edition

THE almost mythological status enjoyed by Winston Churchill as Britain's saviour in the second world war has increasingly obscured the historical reputation of the man who led the country to victory in the first. Yet David Lloyd George was in many respects

Lloyd George: War Leader
By John Grigg

Allen Lane/The Penguin

as remarkable a leader as Churchill, a man who rose to the challenge of rallying his people with the same energy and determination, and led them through to a victory which could never be taken for granted.

Press; 688 pages; £25

Buy it at Amazon.co.uk

The third volume of John Grigg's monumental life of Lloyd George, sadly unfinished before the author's death last year, vividly portrays the years of wartime premiership, which Lloyd George took up in December 1916. The narrative is sweeping, the figures flesh and blood, the many crises that confronted his subject discussed with Mr Grigg's familiar blend of scholarship, sound judgment and elegant prose. The resulting portrait is unself-consciously sympathetic. Lloyd George was at times exasperating, devious and politically inept, but the net worth is overwhelmingly positive. In the circumstances, no one else could have taken his place.

The story begins with a summary of just what a British statesman had to confront on

achieving the highest office in the middle of what was turning into the first total war. Not only were the allies unable to find a way to defeat a powerful and well-organised German enemy, the submarine menace was about to impose a threat of blockade on trade-dependent Britain; the country needed to be held together politically in the face of labour unrest, Irish nationalism and dangerous fissures in a parliament ostensibly fighting a common cause; relations with allies were strained and incoherent. Lloyd George was not everyone's choice, any more than Churchill was a generation later, but he confounded his critics by securing a more effective military campaign, firmer allies and sufficient domestic peace to prevent Britain's war effort from foundering as it threatened to do in 1916.

That he did so was all the more remarkable in a man so hostile to regular administration and neat habits of mind. Lloyd George was never a conventional premier. He left much undone, delegated a great deal, attended parliament irregularly and set up the first pseudo-presidential apparatus of advisers and assistants largely independent of direct parliamentary review. The new style was

exemplified by the different relationship Lloyd George had with the king. His predecessors wrote out by hand a copy of the cabinet's conclusions to be conveyed to the palace, usually in person. Lloyd George had the minutes professionally taken, mechanically copied and sent by courier to the king.

The biggest contribution Lloyd George made to the politics of the last two years of war was to avoid the gradual subversion of civilian politics by the army. Civil-military relations were dangerously poised when he took office. Mr Grigg demonstrates that this was no idle threat, though Lloyd George's almost paranoid fear of military conspiracy was clearly overdone. He managed to impose civilian priorities against, above all, the over-mighty chief of the Imperial General Staff, Sir William Robertson, whose powers by 1916 were not far short of those Hindenburg enjoyed on the other side. Lloyd George did not want to impose strategy, and seems on this account to have understood it as waywardly as did Churchill later, but he did want to win, and believed civilian control of a democratic war to be the better way.

His fiery commitment to a victory and a just peace shines through these pages. In an afterword, generously composed in a style entirely in keeping with the rest, Margaret Macmillan, a descendant of Lloyd George's and author of her own book on the allies' peace talks, makes clear that he wanted a settlement that would prevent more wars and not simply punish. Here again he has lost the limelight. Woodrow Wilson's Fourteen Points, announced to Congress on January 8th 1918 as a basis for a peace, have been remembered by posterity where Lloyd George's new year address three days earlier, in which he outlined almost identical proposals, has not.

Lloyd George was a complex individual. He emerges here as a bundle of political energy and impulses, whose fiery and powerful personality, like that of his opposite number in France, Georges Clemenceau, was necessary for the time. He turned the war into the first people's war, and laid the foundation for that greater test a generation later. Mr Grigg's final and posthumous volume surely rescues Lloyd George from life in Churchill's shadow.

Lloyd George: War Leader.
By John Grigg.
Allen Lane/The Penguin Press; 688 pages; £25

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New fiction

Shining light

Nov 21st 2002
From The Economist print edition

TO MEET her readers A.L. Kennedy wears her hair unstyled, her face free of make-up. Only her words are permitted to speak for her, but she begins so softly one might be tempted to suppose she'd rather be elsewhere. That would be a mistake. Quickly Ms Kennedy grabs her

Indelible Acts: A Collection of Stories
By A.L. Kennedy

Jonathan Cape; 228 pages;

listeners, makes them laugh, reels them in like fish. Her books do the same.

£12.99. To be published in America by Knopf in June 2003

Buy it at Amazon.co.uk

At the age of three, Ms Kennedy learned to read. A huge world opened up for her. As one hero says, “I cannot just be, I must also do and be seen to do and be heard to do and known to do and then I can live.” Fuelling all her writing has been a desire to recreate that early flame, to ignite a response so intense it becomes almost physical. “And within the point which is a very brief thing two human beings are one,” says another character, a duellist. “The speaker and the listener, the writer and the reader, the man who bleeds and the man who makes him, they are the same thing.”

In 1993, Ms Kennedy was named by *Granta* as one of Britain's most original young novelists. Thomas Lynch and Richard Ford have both come to regard her as a world-class writer. She herself believes writing saved her from a life of waiting for something to happen, like one of Chekhov's “Three Sisters”, a play for

which she confesses to having something of an obsession. In her first book of short stories, “Night Geometry and the Garscadden Trains”, Ms Kennedy remarked that most people, “live their lives in the best way they can with generally good intentions and still leave absolutely nothing behind.” This is not good enough for Ms Kennedy's characters—nor for her—yet she proves her point by shining a light on small lives that would otherwise remain hidden.

Most of the characters in her three novels and four books of short stories inhabit the choppy waterway between hope and reality, their lives deadened by poverty, dull routine and habit. Their instincts all too often are to withdraw lest life “kick [them] in the heart at any time it chooses.” “Indelible Acts”, her latest collection, has all the familiar themes—lonely people, a longing for contact, acts of intimacy that do not last.

Yet it is her observations of these interstices that so mark her out as a writer of sharpness and integrity. A husband sets off the castration of his marriage with a tiny lie told in a cheese

shop queue, a junior doctor finally bows to his homosexuality when he breathes yes, (“a hot little word”, Ms Kennedy calls it) to an older colleague. A young man exhuming mass graves tries to counter the sense of being drenched in the peaty smell of death; his antidote is to shut his eyes and try to decide “where *he* was. Really—which was the place in the body where he felt himself to be.”

Each story carries enough warmth to ward off despair. Where the exhumer really exists is in the little space behind his eyes; the husband in the queue says to a woman behind him, “I moved” instead of “I'm married”. By the time he writes her phone number on the inside of his wrist, he is a goner. Ms Kennedy's shining light makes you blink, but the painful honesty of her stories makes each one hard to forget.

Indelible Acts: A Collection of Stories.
By A.L. Kennedy.
Jonathan Cape; 228 pages; £12.99. To be published in America by Knopf in June 2003

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About sponsc

Thomas Gainsborough

Independent eye

Nov 21st 2002
From The Economist print edition

A glittering exhibition that shows he

wasn't so conventional after all

THOMAS GAINSBOROUGH (1727-88) seems the very model of an old master, whose paintings are so familiar they barely rate a second glance. Yet the Gainsborough retrospective at London's Tate Britain gallery (until January 19th) restores his stature as a bright young spark, challenging the standards of his time and pointing the way towards the future.

In Georgian England, the dominant painter and arbiter of taste was Joshua Reynolds, president of the newly established Royal Academy. While Reynolds preached and practised an art that looked back to classical models, Gainsborough sought to capture the sense of life in the vital present. A typically grand portrait by Reynolds depicted its subject as a kind of timeless figure, a neo-noble Roman draped in antique robes.

Gainsborough, by contrast, aimed at vivacious representation of the person actually before him, resplendent in contemporary fashion. Even more distinctive was his brushwork.

Instead of Reynolds's flat colour and smooth “licked” finish, a Gainsborough surface was composed of restless, flickering strokes, which the eye translated into a palpable sense of light and movement. Connoisseurs were non-plussed but impressed. One observed, “We have a painter here who takes the most exact likenesses I ever yet saw. His painting is coarse and slight, but has ease and spirit.” If such a statement shows only a bemused grasp of Gainsborough's achievement, Reynolds was himself mystified, marvelling that “all these odd scratches and marks, this uncouth and shapeless appearance, by a kind of magick, at a certain distance assumes form.”

At the Tate, that magic is everywhere, conveying Gainsborough's devotion to the world around him, rather than a formulaic past. Although his portraits are the chief glories of the show, his real love was landscape, which he painted all his life, but for which demand was slight. Indeed, the most magnificent works are portraits out of doors, where the landscape becomes part of the whole. Sometimes the human subject suffers by comparison with the glorious surroundings, as in the famous double portrait of Mr and Mrs

Andrews, a rich landowner and his wife, whose sullen, vacuous aspect is impervious to the radiant fields stretching into the distance.

In fact, Gainsborough's paintings habitually reveal his independence of mind as well as technique. Despite relying on the well-to-do for commissions, he was no obliging sycophant and depicted the character of his sitter as he perceived it. All his life, he loathed pomposity as much as he loved nature.

In female portraits like those of Mary, Countess Howe and Mrs Richard Brinsley Sheridan, the grandeur of the setting and the beauty of the sitter combine in brilliant harmony, animated and united by Gainsborough's virtuoso brushwork.

These qualities of eye and mind inspired such painters as Constable, and the Romantic art which ultimately led to Impressionism. Gainsborough once summed up his approach with the simple words, “I like the truth and day light!”, and he immortalised that vision in paint.

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Aztec art

Terrible beauty

Nov 21st 2002
From The Economist print edition

A kingdom of sticks and stones, human sacrifices, gold and feathered serpents

LONDON'S Royal Academy of Arts appears to have disembowelled the magnificent anthropological museum in Mexico city to assemble Europe's first Aztec exhibition of this scale in recent

memory.

Militaristic, orderly and cruel, the last people to rule central Mexico before the Spanish conquest worshipped the sun, the earth, the night, rain, fire and maize, and built vast temples in honour of these gods. The Aztecs created an astral calendar that guided their rituals: human sacrifice and the wearing of victims' skin (as in the figure right). They left sites so rich they are still yielding fresh treasures today.

I've got me under your skin

On show in London until April 11th is a 15th-century terracotta eagle man from the Aztec great temple, his newly excavated friend, Mictlantecuhtli, whose disembowelled liver hangs like heavy fruit from his open chest, shields of coloured quetzal feathers, gold, rock crystal and daggers drawn from the palest green obsidian.

The Mexicans hope “Aztecs” will be the hot ticket of the season. Not only did they send their historic treasures; their president, Vicente Fox, opened the show. In return, Mexico will receive a tenth of the money from ticket sales. Cheap at the price, many would say.

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Natalie Wraga

Nov 21st 2002
From The Economist print edition

Natalie Grant Wraga, an expert on Russia, died on November 12th, aged 101

WHEN Natalie Wraga turned 100 last year the local council for Leesburg, Virginia,

sent her a certificat of "congrat and commen for her work as an adviser on Soviet affairs to the

United States government. Leesburg does not normally concern itself with international matters: traffic problems and overdevelopment are its priorities, while not neglecting to praise the excellent record of the local girls' volleyball team. But Mrs Wraga had become a part of the history of Leesburg, along with the home of General George Marshall, he of the Marshall Plan, and Ball's Bluff, the site of a civil war battle.

Mrs Wraga preferred to live away from the bustle of the town. Her biographer, Mary

Siddall, recalled visits to her “mountain-top house” outside Leesburg “to read to her, take her to lunch, organise her library, and pick berries from her yard.” Although Mrs Wraga was almost blind towards the end of her life “you'd never know it by the way she navigated the miles and miles of back country roads on our way to lunch.” Mrs Wraga's mountain home was also a mecca for Kremlin-watchers who came to see her from Washington, only some 35 miles away.

Well into her 90s she was happy to offer her views on how the foxy Russians were trying to deceive the innocent Americans. Whether or not they accepted her judgment, she was always assured of a fascinated audience. She was perhaps the only person alive in the West who could claim such an intimate knowledge of Russian political thinking, from tsarist times to the collapse of the Soviet Union. As they drove back to Washington, her guests would mull over Mrs Wraga's delphic pronouncement: “Many people are studying the past, but very few are studying the present. Keep your eyes open and your ears open.”

The view from Riga

Natalie Konstantinovna Mark was born in Tallinn, the capital of Estonia, a part of the tsarist empire that was close to the tastes of Western Europe. Her father was a judge, she had a comfortable middle-class childhood and was taught by governesses. English and French were spoken in the home. In 1917, when Natalie was 16, the Russian revolution was ignited in nearby St Petersburg. The family moved south to the safety of Crimea, believing that the revolution would soon fizzle out. When it didn't the family moved to the United States. Natalie returned to Estonia, which astonishingly had managed to achieve independence, rejecting a communist attempt to take it over. Natalie worked for an American relief organisation in the country. She married and divorced an American relief worker (who upset the Estonian authorities by helping communists) and started her long career analysing Soviet policy for the United States.

The Americans were deeply reluctant to recognise Russia's government; not so much

because it was communist, an ideology few ordinary Americans knew much about, but because it was “godless”. In 1933, the new Democratic president, Franklin Roosevelt, said even a godless country could provide America with much-needed trade, and 16 years after the Russian revolution recognition was granted. Natalie Wraga (by now married to a Polish intelligence chief, Richard Wraga) observed how the Russians were keeping to the promises they had made to gain recognition, and reported that they were mostly breaking them, even over trade, which did not increase. After her spell in Tallinn she had been posted in 1928 to the American legation in Riga, the capital of Latvia (where her boss was George Kennan, who was to become famous diplomatically for advocating the “containment” of the Soviet Union, which became the basis of American policy during the cold war). In 1940, when the Russians occupied Latvia, Mrs Wraga was moved to Switzerland, and after the second world war she worked for the State Department in Washington.

Mrs Wraga believed that the cold war did not end with the break-up of the Soviet Union. The

Russians were pretending to be weak, she said, that their soldiers were on the verge of collapse. But they still had missiles and nuclear arms and their espionage was excellent. They remained masters of disinformation, the “planned, conscious deception for gain”. Sometimes, she said, more than 90% of the content of disinformation was true. “Find the part that is false.” From the 1930s onwards the Russians had pushed “peace” as a tool against the West. Now they had come up with the idea of the environment. Regimes they disliked were “poisoning the atmosphere”. As in the past, Mrs Wraga said, their ideas were popular, especially among the young. “There's always a tendency to trust the left wing.”

Not everyone in Washington agreed with her, but those who came to her mountain-top were content to listen rather than argue. What, they wondered, kept this astonishing woman going? According to Mary Siddall, Natalie Wraga avoided most meats but otherwise ate well and liked a glass of red wine. She preferred Belgian chocolate because it was made with lots of cream. A daily tablespoon of honey kept rheumatism at bay. She loved caviar. It was, it seems, something Russian you could trust.

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Overview

Nov 21st 2002
From The Economist print edition

America's industrial production fell in October for the third successive month, by 0.8%. More cuts may lie ahead: in September business inventories rose at their fastest pace in almost two years, as sales slumped. The housing market, one of the economy's main props this year, is also wobbling. Housing starts dropped by 11.4% in October. This was a bigger fall than expected, but it followed a surge in September, when they hit their highest level since December 1986.

A modest decline in America's **trade deficit** in September was widely cheered. But the deficit was still the second-biggest on record, lifting the 12-month figure to $453 billion. In

contrast, the euro area had a trade surplus of $95.6 billion over the same period, up from a surplus of $18.6 billion a year ago.

The latest figures show few signs of deflation. America's headline rate of **consumer-price inflation** rose to 2.0% in October, largely as a result of dearer oil and a jump in car prices, which had been heavily discounted the previous month. Producer prices also rose more sharply than expected (up by 1.1%, or 0.6% on a year earlier). In the euro area consumer-price inflation was revised up to 2.3% in October, well above the 2% ceiling set by the European Central Bank. However, comments from ECB officials over the past week appear to signal that the bank expects inflation to fall next year, making room for an interest-rate cut. This may come as soon as its meeting on December 5th.

Lower interest rates certainly seem badly needed in most of the **euro area.** Germany's GDP rose by 0.3% in the third quarter of this year, to give total growth of only 0.4% compared with a year ago. Industrial production in the euro area fell by 0.6% in the

year to September. But unemployment in the Netherlands remained at 2.4% of its labour force in the three months to October—by far the lowest jobless rate of all the countries in the table.

The share prices of two of **Japan's** biggest banks fell to historic lows on concerns about their possible nationalisation. Tokyo's Topix was the only main stockmarket index to suffer a fall over the week: it lost 0.7%.

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Output, demand and jobs

Nov 21st 2002
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% change on year ago

	GDP			The Economist poll GDP forecasts	
	1 qtr*	1 year		2002	2003
Australia	+ 2.4	+ 3.8	Q2	+ 3.7	+ 3.5
Austria	+ 2.5	+ 0.9	Q2	+ 0.7	+ 1.7
Belgium	+ 1.2	+ 0.3	Q2	+ 0.6	+ 1.8
Britain	+ 2.7	+ 1.7	Q3	+ 1.6	+ 2.6
Canada	+ 4.3	+ 3.2	Q2	+ 3.4	+ 3.2
Denmark	+ 4.4	+ 2.0	Q2	+ 1.8	+ 2.1
France	+ 1.6	+ 1.0	Q2	+ 1.1	+ 1.8
Germany	+ 1.1	+ 0.4	Q3	+ 0.4	+ 1.3
Italy	+ 1.1	+ 0.5	Q3	+ 0.4	+ 1.6
Japan	+ 3.0	+ 1.5	Q3	– 0.7	+ 1.0
Netherlands	+ 0.3	+ 0.1	Q3	+ 0.4	+ 1.4
Spain	+ 1.8	+ 2.0	Q2	+ 1.9	+ 2.4
Sweden	+ 2.4	+ 2.1	Q2	+ 1.7	+ 2.4
Switzerland	+ 0.4	– 0.4	Q2	+ 0.1	+ 1.3
United States	+ 3.1	+ 3.0	Q3	+ 2.4	+ 2.7
Euro area	+ 1.6	+ 0.7	Q2	+ 0.7	+ 1.7
MORE COUNTRIES	Data for the countries below are not provide				
Finland	+ 8.8	+ 2.5	Q2	na	na
Greece	na	+ 4.0	Q2	na	na
Iceland	na	+ 3.1	2001	na	na
Ireland	na	+ 6.5	Q2	na	na
Luxembourg	na	+ 3.5	2001	na	na
New Zealand	+ 7.1	+ 4.0	Q2	na	na
Norway	+ 3.1	+ 1.7	Q2	na	na

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Prices and wages

Nov 21st 2002
From The Economist print edition

% change on year ago

	Consumer prices			The Economist p consumer prices fo	
	latest		year ago	2002	200
Australia	+ 3.2	Q3	+ 2.5	+ 2.8	+ 2
Austria	+ 1.8	Oct	+ 2.5	+ 1.8	+ 1
Belgium	+ 1.3	Oct	+ 2.4	+ 1.7	+ 1
Britain	+ 2.1	Oct	+ 1.6	+ 1.9	+ 2
Canada	+ 2.3	Sep	+ 2.6	+ 2.2	+ 2
Denmark	+ 2.5	Oct	+ 2.2	+ 2.3	+ 2
France	+ 1.9	Oct	+ 1.8	+ 1.9	+ 1
Germany	+ 1.3	Oct	+ 2.0	+ 1.4	+ 1
Italy	+ 2.7	Oct	+ 2.5	+ 2.4	+ 1
Japan	– 0.7	Sep	– 0.8	– 0.9	– 0
Netherlands	+ 3.4	Oct	+ 4.3	+ 3.7	+ 2
Spain	+ 1.0	Oct	+ 3.0	+ 3.4	+ 2
Sweden	+ 2.5	Oct	+ 2.7	+ 2.3	+ 2
Switzerland	+ 1.3	Oct	+ 0.6	+ 0.7	+ 0
United States	+ 2.0	Oct	+ 2.1	+ 1.6	+ 2
Euro area	+ 2.3	Oct	+ 2.3	+ 2.2	+ 1
MORE COUNTRIES	Data for the countries below are not provide				
Finland	+ 1.5	Oct	+ 2.2	na	
Greece	+ 3.7	Oct	+ 2.8	na	
Iceland	+ 2.4	Nov	+ 8.1	na	
Ireland	+ 4.7	Oct	+ 4.3	na	
Luxembourg	+ 2.2	Oct	+ 2.3	na	
New Zealand	+ 2.6	Q3	+ 2.4	na	
Norway	+ 1.8	Oct	+ 2.2	na	
Portugal	+ 4.0	Oct	+ 4.1	na	

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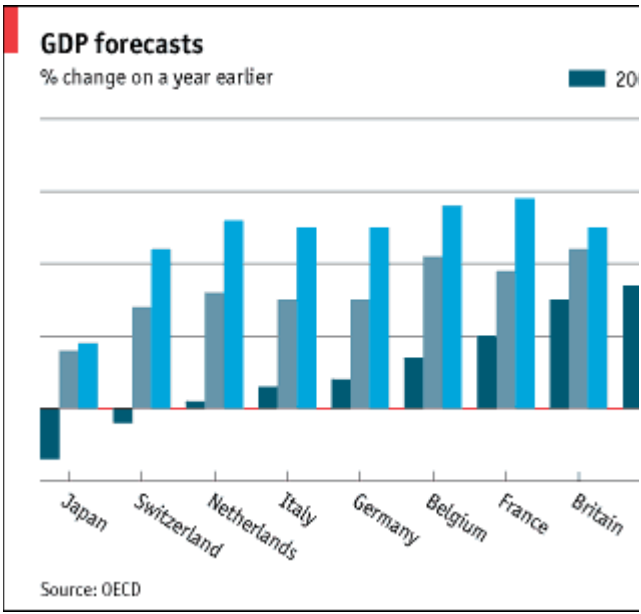
GDP forecasts

Nov 21st 2002
From The Economist print edition



The OECD forecasts gradual economic recovery for its largest members over the next two years. In our chart, only Canada (which has had a decent 2002) is expected to record slower GDP growth next year than this. Most countries will then see a still more robust expansion in 2004. The global growth league table will change little: Australia, the United

States and Canada should enjoy the fastest growth, Japan the slowest.

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Money and interest rates

Nov 21st 2002
From The Economist print edition

	Money supply* % change on year ago			I 3-mth money mark	
	narrow	broad		latest	year ac
Australia	– 6.1	+11.4	Sep	4.82	4.30
Britain	+ 8.2	+ 5.4	Sep	3.91	3.75
Canada	+14.7	+ 6.6	Sep	2.72	2.21
Denmark	+ 7.4	+ 8.1	Sep	3.35	3.77
Japan	+29.0	+ 3.3	Oct	0.02	0.02
Sweden	+ 2.2	+ 5.9	Jul	3.81	3.73
Switzerland	+11.5	+ 5.4	Oct	0.73	2.15
United States	+ 3.5	+ 6.0	Oct	1.33	2.02
Euro area†	+ 8.2	+ 7.4	Sep	3.08	3.36

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain
4.79%, Japan No.243 0.985%. Central bank rates: US fed funds 1.25%, ECE
Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Can
Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Nov 21st 2002
From The Economist print edition

1995=100

	Nov 12th	Nov 19th*	% change on one month	% change on one year
Dollar index				
All items	75.8	76.0	+ 0.7	+16.0
Food	79.7	80.0	– 0.4	+17.4
Industrials				
All	70.5	70.5	+ 2.5	+14.0
Nfa†	71.9	72.1	+ 1.6	+25.6
Metals	69.3	69.2	+ 3.3	+ 5.4
Sterling index				
All items	75.3	75.4	– 2.0	+ 3.5
Euro index				
All items	98.7	98.7	– 2.7	+ 1.2
Yen index				
All items	96.1	98.3	– 2.1	+15.0
Gold				
$ per oz	321.65	320.05	+ 2.3	+17.1
West Texas Intermediate				
$ per barrel	25.94	26.40	– 5.3	+39.3

* Provisional. † Non-food agriculturals.

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Stockmarkets

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From The Economist print edition

Market indices

	Nov 20th	2002 high	lo
Australia (All Ordinaries)	2,969.0	3,440.0	2,85
Austria (ATX)	1,102.3	1,357.2	1,00
Belgium (Bel 20)	2,064.3	2,899.8	1,77
Britain (FTSE 100)	4,094.9	5,323.8	3,67
Canada (Toronto Composite)	6,493.1	7,958.1	5,69
Denmark (KBX)	166.8	233.4	15
France (SBF 250)	2,110.3	3,081.9	1,79
(CAC 40)	3,153.5	4,688.0	2,65
Germany (Xetra DAX)	3,213.0	5,462.6	2,59
Italy (BCI)	1,123.5	1,513.0	97
Japan (Nikkei 225)	8,459.6	11,979.9	8,30
(Topix)	830.8	1,139.4	81
Netherlands (AEX)	339.4	531.2	29
Spain (Madrid SE)	654.8	848.1	56
Sweden (Affarsvarlden Gen)	157.1	236.8	12
Switzerland (Swiss Market)	5,034.3	6,694.1	4,43
United States (DJIA)	8,623.0	10,635.3	7,28
(S&P 500)	914.2	1,172.5	77
(NASDAQ Comp)	1,419.4	2,059.4	1,11
Europe (FTSE Eurotop 300)*	909.2	1,279.7	79
Euro area (FTSE Ebloc 100)*	760.3	1,125.1	63
World (MSCI)†	810.5	1,024.4	70
World bond market (Salomon)‡	503.5	510.0	43

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Trade, exchange rates and budgets

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	Trade balance*, $bn latest 12 months		Current account $bn latest 12 mths		The Economist poll % of GDP, forecast 2002	2003	Exc trad 1 Nov 2
Australia	− 2.7	Sep	− 11.6	Q2	− 3.7	− 3.7	74
Austria	− 0.8	Aug	− 1.0	Aug	− 1.8	− 1.8	100
Belgium	+ 17.1	Sep	+ 12.5	Jun	+ 4.9	+ 5.0	100
Britain	− 46.1	Sep	− 25.8	Q2	− 1.9	− 1.9	106
Canada	+ 34.7	Sep	+ 12.1	Q2	+ 2.0	+ 2.1	74
Denmark	+ 7.1	Sep	+ 3.6	Sep	+ 2.2	+ 2.0	103
France	+ 9.8	Sep	+ 26.8	Sep	+ 1.8	+ 1.8	102
Germany	+110.9	Sep	+ 37.6	Sep	+ 1.4	+ 1.0	99
Italy	+ 11.6	Sep	− 1.0	Sep	nil	nil	73
Japan	+ 86.5	Sep	+113.1	Sep	+ 2.8	+ 2.8	131
Netherlands	+ 27.2	Sep	+ 9.0	Q3	+ 3.3	+ 3.6	99
Spain	− 36.4	Aug	− 14.5	Jul	− 1.9	− 1.7	75
Sweden	+ 14.3	Sep	+ 8.0	Sep	+ 3.3	+ 3.3	78
Switzerland	+ 3.8	Sep	+ 22.7	Q2	+10.0	+10.3	114
United States	−452.7	Sep	−428.8	Q2	− 4.7	− 4.9	113
Euro area	+ 95.6	Sep	+ 31.6	Aug	+ 0.5	+ 0.6	82
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Econ*						
Finland	+ 13.0	Aug	+ 9.5	Sep	na	na	79
Greece	− 20.3	Sep	− 7.7	Aug	na	na	58
Iceland	+ 0.2	Sep	− 0.1	Q2	na	na	93
Ireland	+ 34.2	Aug	+ 0.4	Q2	na	na	89
Luxembourg	− 2.6	Aug	+ 2.1	Q2	na	na	100
New Zealand	− 0.2	Sep	− 1.3	Q2	na	na	90
Norway	+ 24.5	Oct	+ 25.6	Aug	na	na	106
Portugal	− 12.8	Jul	− 12.7	Aug	na	na	91

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cl

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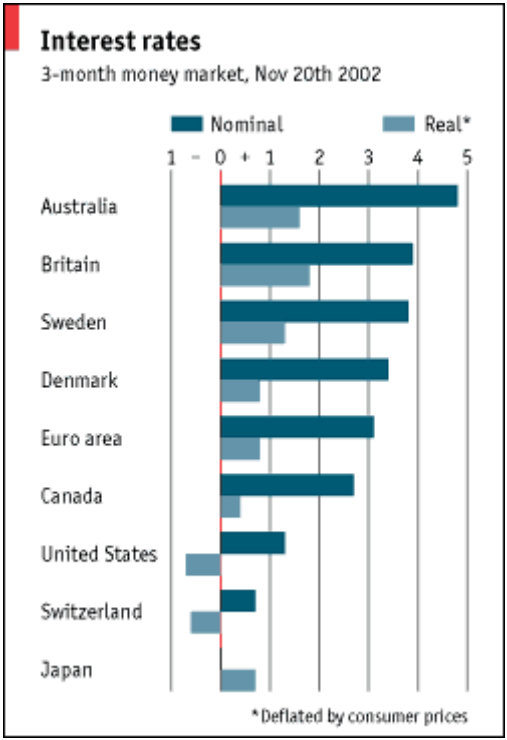
Interest rates

Nov 21st 2002
From The Economist print edition



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Overview

Nov 21st 2002
From The Economist print edition

Most emerging economies continue to recover from last year's downturn. **Mexico's** GDP rose by 1.8% in the year to the third quarter, pulled up on America's coat-tails. **Taiwan's** GDP jumped by 4.8% over the same period, helped by a rebound in investment. **Russia's** industrial output rose by 3.9% in the year to October.

Argentina's government confirmed that it had defaulted on a repayment of principal to the World Bank. The country was already in default to private creditors, but its servicing of official debt was depleting reserves.

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Current-account surpluses and deficits

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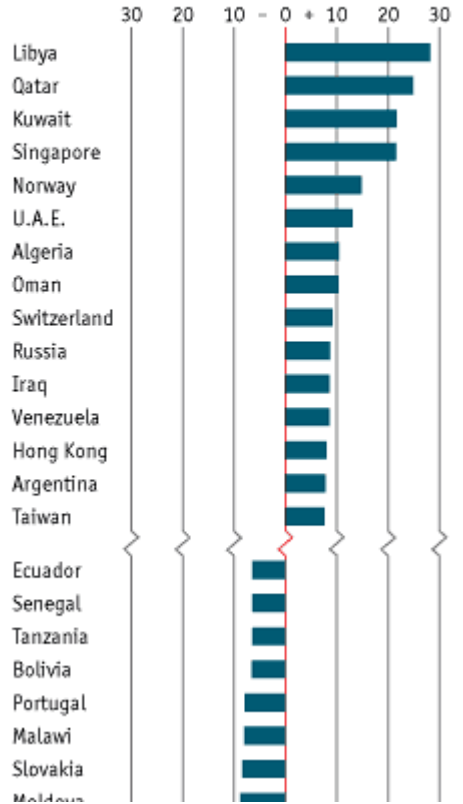
A country's current-account balance consists of exports and imports of goods and services, cross-border flows of investment income, workers' remittances and official aid. America's current-account deficit may be unsustainably large, at 5% of GDP; but six countries in the chart will run a deficit of more than 10% of GDP this year. Nicaragua has the biggest, at 24% of GDP. Libya has the world's biggest surplus, at 28% of GDP.

Current-account surpluses and deficits

% of GDP, 2002 forecast



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Economy

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	% change on year ago				
	GDP		Industrial production		Consu pric
China	+ 8.1	Q3	+14.2	Oct	– 0.8
Hong Kong	+ 0.5	Q2	–11.2	Q2	– 3.6
India	+ 6.0	Q2	+ 6.1	Sep	+ 4.3
Indonesia	+ 3.9	Q3	–11.7	Q1	+10.3
Malaysia	+ 3.8	Q2	+ 9.0	Sep	+ 2.1
Philippines	+ 4.5	Q2	–12.0	Aug	+ 2.7
Singapore	+ 3.7	Q3	+10.4	Sep	– 0.4
South Korea	+ 6.3	Q2	+ 3.4	Sep	+ 2.8
Taiwan	+ 4.8	Q3	+ 7.4	Oct	– 1.7
Thailand	+ 5.1	Q2	+ 9.8	Sep	+ 1.4
Argentina	–13.6	Q2	– 3.8	Sep	+39.4
Brazil	+ 1.0	Q2	+ 5.6	Sep	+ 8.5
Chile	+ 1.7	Q2	+ 5.2	Sep	+ 3.0
Colombia	+ 2.2	Q2	+ 1.0	Aug	+ 6.4
Mexico	+ 1.8	Q3	– 0.6	Sep	+ 4.9
Peru	+ 7.3	Sep	+ 4.8	Aug	+ 1.4
Venezuela	– 9.9	Q2	– 6.6	Jul	+29.9
Egypt	+ 4.9	2001†	+ 7.8	2001†	+ 3.0
Israel	– 1.7	Q2	– 2.8	Aug	+ 6.9
South Africa	+ 3.2	Q3	+ 8.6	Sep	+14.5
Turkey	+ 8.2	Q2	+10.8	Sep	+33.4
Czech Republic	+ 2.5	Q2	+ 9.2	Sep	+ 0.6

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Financial markets

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	Currency units			Interest ra
	per $		per £	short-ter
	Nov 20th	year ago	Nov 20th	% p.a.
China	8.28	8.28	13.0	na
Hong Kong	7.80	7.80	12.3	1.63
India	48.2	48.0	75.9	5.51
Indonesia	8,968	10,440	14,130	13.85
Malaysia	3.80	3.80	5.99	3.10
Philippines	53.7	52.0	84.6	6.81
Singapore	1.77	1.84	2.79	0.81
South Korea	1,209	1,275	1,905	4.89
Taiwan	34.8	34.4	54.8	1.95
Thailand	43.5	44.4	68.5	1.90
Argentina	3.52	1.00	5.54	10.70
Brazil	3.51	2.53	5.54	20.90
Chile	697	679	1,099	2.76
Colombia	2,668	2,318	4,204	7.91
Mexico	10.15	9.14	16.0	7.24
Peru	3.59	3.43	5.65	3.80
Venezuela	1,337	745	2,106	29.49
Egypt	4.63	4.26	7.30	6.47
Israel	4.68	4.22	7.37	6.40
South Africa	9.7	9.90	15.2	13.60
Turkey	1,589,500	1,505,000	2,504,575	42.00
Czech Republic	30.5	38.0	48.1	2.77
Hungary	237	285	373	8.43

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